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AUSTRIA

PROBLEMS OF U. S. ARMY IN OCCUPATION 1945 - 1947

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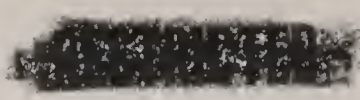
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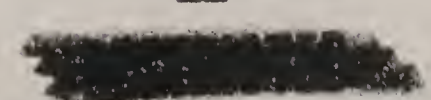
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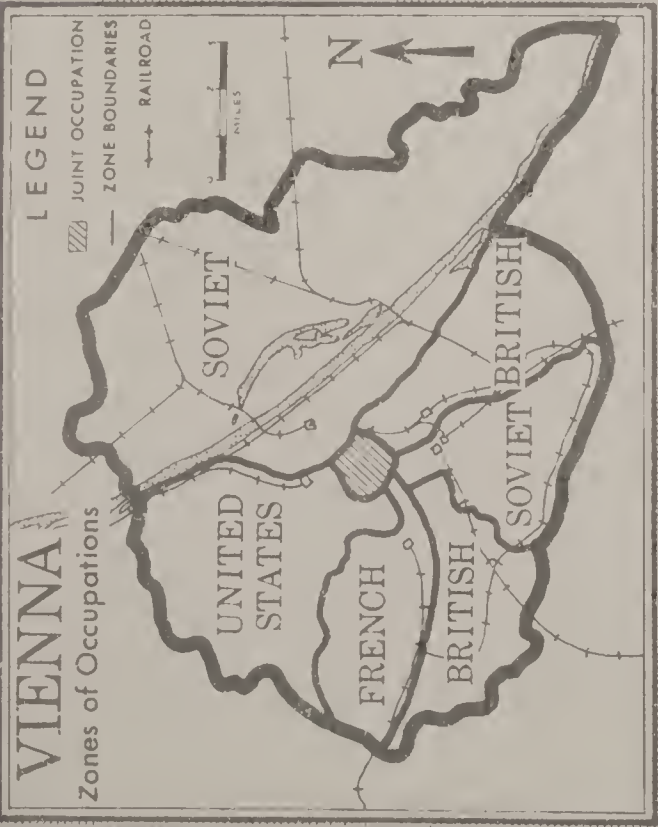


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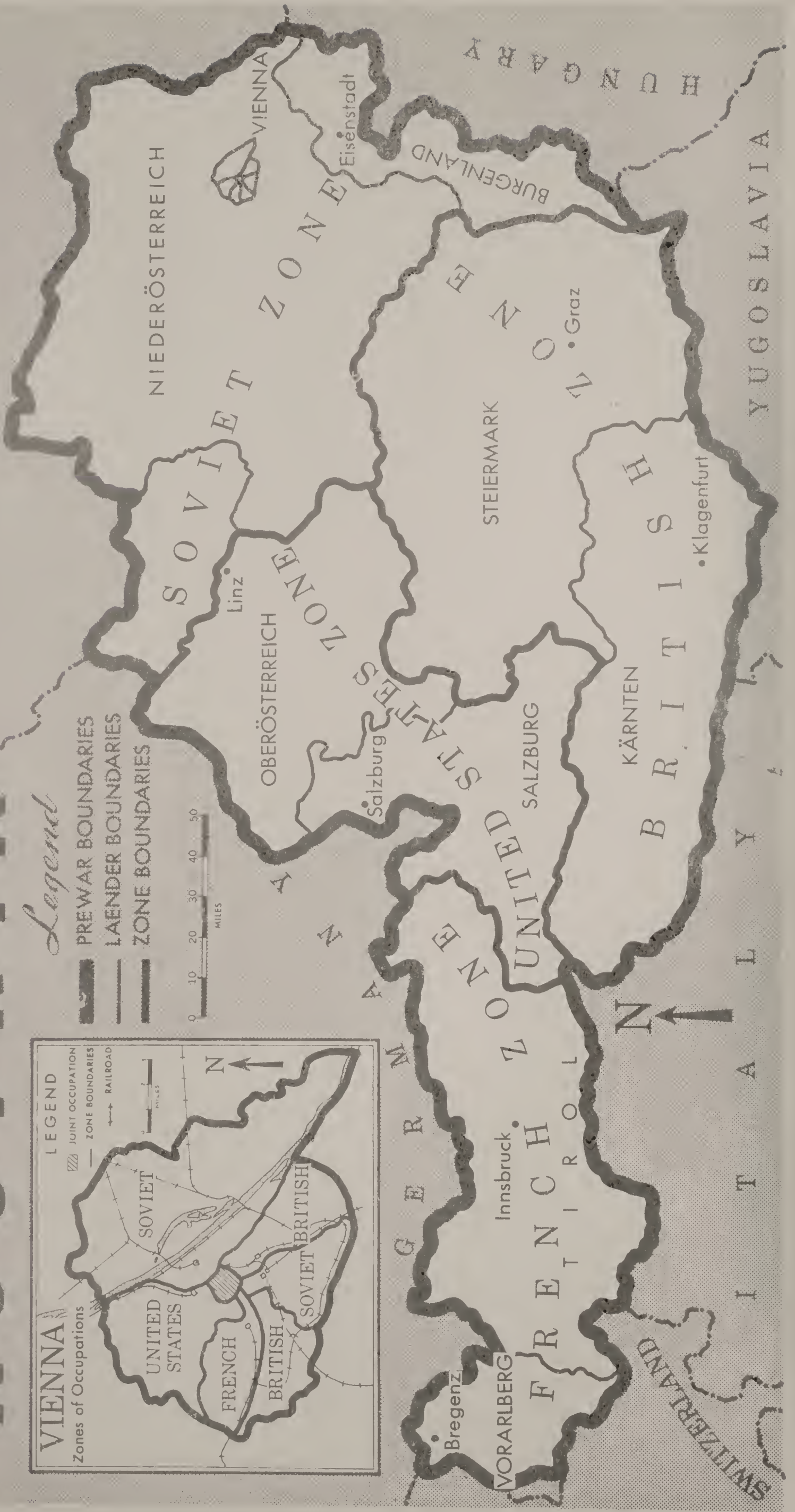
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POLITICAL AND SOCIAL DEVELOPMENTS

Austria's Position and Historical Background

Austria, a comparatively small yet most important country, lies on the historical border line between eastern and western Europe.

It has been a pillar of western civilization since the Middle Ages and any consideration of her problems should take account of her historical traditions. For many centuries Austria had been the center of a powerful empire stretching far to the south and east and comprising Slavic, Italian, Magyar and other people, all of which contributed in leaving their imprint on the Austrian character, which is thoroughly cosmopolitan.

Today, the Austrian Republic is an outpost of the west whose trade with the East at present is very limited. Although her language is German, Austria's people have characteristics and traditions different from those of her once powerful neighbor. After the disintegration of the Austro-Hungarian Empire in 1918, Austria's natural resources and her degree of self-sufficiency were greatly reduced and it became to a large extent economically dependent on Germany. These conditions prepared the ground for the expansionist ambitions of the Nazis. For several years Austria withstood the onslaughts of intrigue, persuasion and threats, but finally in 1938 was integrated into Hitler's Reich as the first victim of Nazi Germany.

Austria, at the outbreak of World War II, had ceased to exist as an entity. She had been reduced to a group of provinces of the Third Reich, her economy was submerged into the German war economy, her traditions, culture and characteristics were ruthlessly suppressed. Even her name was lost and an effort was made to Germanize the country completely.

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The most strenuous efforts of the new masters of Austria, however, were unable to produce any great change in the characteristics of her people. Austrian character has a peculiar resiliency and an easy-going philosophy of life that refuses to take too serious a view of the material difficulties of existence. Despite the upheavals of the war years, she has slipped back into her previous mental outlook which combines an easy-going nonchalance, skilled workmanship, artistic brilliance, fertile inventiveness and a positive genius for making the best of an extremely bad situation.

Austrians consider themselves an integral part of western civilization and think of Vienna as one of its foremost cultural centers. The present Austrian Government is based on democratic principles, as was her first Republican Government -- formed after the collapse of the Austro-Hungarian Empire after World War I.

Position of Military Government in Austria

The Military Government in Austria occupies a position different from that in the occupied areas of Germany, Japan and Korea. Austria has an elected, constituted and recognized government which, although not enjoying the full rights of a sovereign state, nevertheless maintains and assumes the functions and responsibilities of any normal government. These responsibilities were confirmed under the terms of the New Control Agreement of 26 June 1946, and only in a few instances do governmental rights remain with the Allied Control Council or with the respective military commanders of the four Occupied Zones and the quadripartite area of Vienna.

The United States, in effect, acts in an advisory or supervisory capacity with respect to the Austrian Government; responsibilities for external

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negotiations with other nations, internal problems of political or economic nature are to a very large extent the sole prerogative of that government.

Objectives of Occupation

The basic policy with reference to Austria was laid down by the United States, the United Kingdom and the U.S.S.R. in the Moscow Declaration of 1 November 1943, wherein Austria was recognized as "the first free country to fall a victim to Hitlerite aggression". The three powers pledged themselves to her liberation and to the reestablishment of a "free and independent Austria" which would find "political and economic security." These statements, however, were qualified by a reminder of Austria's responsibilities for participation in the war at the side of Hitlerite Germany and warning was given that in the final settlement account would be taken of Austrian contribution to her own liberation. France later became an adherent to the Moscow Declaration.

United States policy has been based on a generous interpretation of the Moscow Declaration. The Commanding General of the United States Forces in Austria was directed to devote his efforts to the reestablishment of a free and independent Austrian State, freedom of speech and of the press, and a sound economy which could guarantee a fair standard of living for the Austrian people. Intensive studies of the physical, economic and political aspects of the country were made during the period of U.S. occupation and the data collected were used to develop a comprehensive plan of rehabilitation.

The initial objectives considered of vital importance in carrying out U.S. policy in Austria were discontinuance of political and economic dependency from Germany, and purging of the Nazi element, both in private and public life.

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CONTROL

Until the establishment of the Allied Commission in Vienna in September 1945, no unified control existed in Austria. The Allied Commission assumed supreme authority within the country and its decisions were based on a unanimous vote by the four High Commissioners constituting the Allied Council, each of whom was the Commanding General of one of the four Allied armies.

The Allied High Commissioners were assisted by a staff of experts to cope with the various problems arising from quadripartite occupation. Directorates consisting of Military Government Chiefs of Divisions were organized to resolve specialized problems -- political, legal, economic and others. These Directorates in turn were assisted by working committees in the more technical fields. All decisions or recommendations of the Directorates were reported to the Executive Committee, composed of the four Allied Deputy Commissioners, and thence to the Allied Council. They became effective by unanimous agreement in the Allied Council.

The United States Element of the Allied Commission (USACA), is a special staff section of the Commanding General and under the direction of the United States Deputy Commissioner. This group recommends policy and action and is responsible for implementation of the decisions of the Allied Council within U.S. controlled territory.

The United States Zone of Austria comprises Land Salzburg and Land Upper Austria with the exception of that portion lying north of the Danube towards the Czechoslovakian border. The Military Government of the Zone is responsible for the development and maintenance of the policies as transmitted from USACA.

Each of the Allied Powers in Vienna has an area within the city, with

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the inner city (first district) designated as an International Zone. A quadripartite Kommandatura, composed of the Vienna Area Commanders, represents the supreme control authority of Vienna. The chairmanship rotates monthly and the Area Commander designated as chairman also supervises control in the International Zone. Decisions of the Kommandatura are implemented by the Military Government of each element. If controversial issues cannot be agreed upon by the quadripartite Kommandatura, they are submitted to the Allied Council for a decision.

The new Control Agreement of June 1946 between the Occupying Powers and Austria returned to the Austrian Government a greater degree of sovereignty in the political and economic affairs of its country. Accordingly the functions of the United States control organizations developed increasingly towards an advisory position.

DEMILITARIZATION

The problem of demilitarization was of immediate concern to the United States Forces in Austria. The purely military phase which included the disarming of the German and Hungarian armies, and the destruction of war materials, proceeded in a routine manner. More complex problems were involved in the handling of material, especially industrial equipment, which had belonged to the German armed forces, the Nazi State or to private individuals and which might be used effectively in a peace-time economy. Perishable material and clothing were issued to supply and equip displaced persons or turned over to the Austrian government. Machinery and machine tools were collected, inventoried and were authorized for use (without release of U.S. title) by Austrian industries where most needed. All war industries and experimental laboratories engaged in

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war work were checked and some of them dismantled. Practically everything convertible to peace-time use was turned back to the Austrians and the task of demilitarization within the U.S. Zone is considered completed.

ESTABLISHMENT OF GOVERNMENT

The Provisional Government

When the Russians fought their way into Vienna in April of 1945, the Austrians had organized anti-Nazi resistance units which were operating in Vienna. Followers of all the old political parties, Conservatives (now the Peoples Party), Socialists and Communists, at that time cooperated in a most active manner in the liberation of the Austrian capital.

Faced with the necessity of establishing a government, the Russians chose Dr. Karl Renner, an old member of the Socialist Party who had previously been active in Austria's government, as Chancellor of a Provisional Government. His government consisted of twelve ministers, five of them of the Peoples Party, four Socialists and three Communists. Because two of the key ministries of this government were held by Communists, who in the country as a whole constituted a very small minority, the apparent unbalance caused the U.S. Element at the beginning to doubt the sincerity of purpose of the government. Dr. Renner, however, followed a politically independent line and, after the arrival of American troops in July of 1945, showed clearly that his government was completely neutral with regard to the conflicting interests of the occupying powers. Dr. Renner's statesmanship and experience and strong support by the Peoples and Socialist Parties succeeded in bringing the government through the critical period of 1945.

The provisional government was so constituted that no action could be taken without unanimous consent of the Ministers. Within each ministry no

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important decision could be rendered without agreement by the Minister and his two Under Secretaries, who always had to be of party affiliations different from that of the Minister.

The 1945 Elections

For a time travel restrictions and lack of communications presented many obstacles to the smooth functioning of central control by the provisional government. These difficulties were relieved by the meeting of the representatives of all provinces in Vienna, who also laid the foundation for the calling of national elections under the reestablished constitution of 1929. The elections were held in a fair and orderly manner on 25 November 1945 without interference by the occupying powers, and in December 1945 the provisional government was succeeded by a new Federal government.

The New Control Agreement

The new Control Agreement, signed by the occupying powers on 28 June 1946, was the most important step in the achievement of United States policy objectives in Austria. It put into effect previous declarations made with regard to Austria and formally restored all sovereign rights to the Austrian government subject only to exceptions in certain matters of direct concern to the Allied Powers. The Austrian Government was authorized to pass laws and ordinances which became effective within a period of 31 days unless unanimously vetoed by the Allied Council. Activities of the United States Element now changed over from the phase of active control to that of supervision and advice.

Political Activities and Parties

Relation of Military Government to Federal and Local Governments.

During the first six months of occupation there were no official relations between

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the United States Forces and the Austrian Provisional Government, but after the organization of the newly elected Federal Government close contacts were established. USACA worked closely with the Austrian Government authorities; it exercised supervision over the various ministries and advised them on their problems.

Military Government authorities in the U.S. Zone assisted the Land and municipal governments in their operations. Because of the disruption of communication and transportation facilities and the generally unsettled conditions prevailing in 1945 and early 1946, considerable time was required for the authority of the newly elected Federal Government to become fully effective in the Austrian provinces. During this period of transition the United States Element exerted its influence in facilitating full cooperation between the provincial governments and Federal authorities. Military government in the Zone also acted as a liaison office in bringing to the attention of the United States Element of the Allied Commission complaints of the provincial authorities which were then referred to the Federal authorities.

The Parties. Austrians traditionally have been politically conscious and jealous of the individual's right under constitutional government. In the rural areas, particularly, they are devoutly Catholic and anti-Marxist. In the national elections of 25 November 1945 nearly 3,200,000 valid votes were cast, of which the Peoples Party received 49.8%, the Socialists 46%, while the Communists polled but 5.42%. The low vote of the Communist Party was remarkable in the light of the bitter and aggressive campaign carried on in the pre-election period. It was due to many factors; the behavior of the Russians in eastern Austria, and the systematic removals of machinery and equipment, and other

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property seizures had combined to produce a defensive attitude towards the Russians.

As a result of the November 1945 elections, 85 parliamentary seats went to the Peoples Party, 76 to the Socialists and 4 to the Communists.

The Peoples Party is the party of peasants, small businessmen and tradesmen. It includes many former adherents of the party of the same name of the pre-Anschluss period, as well as many former Christian Socialists and Catholics. It believes in free enterprise, opposes excessive governmental controls and follows, ideologically, a philosophy of religious conservatism.

The Socialist Party, which is the party of workers, contains a portion of the lower middle class and of the Austrian intelligensia. Ably led and implacably anti-Communist, the Socialists are a tightly organized party and far from radical in character. They advocate nationalization of the key industries but would leave large portions of the Austrian economy to operate without restrictions.

The Communist Party follows a Soviet-directed line, but has, for reasons of opportunism, developed a special brand of Communism adapted to Austrian conditions which dares not go so far as to advocate collectivization of the farms-nor interference with the small shopkeeper or businessman. The Party's present leaders came from Moscow where most had fled after the emergence of National Socialism. Their tactics are directed against the west, particularly America; their propaganda calls for cooperation with the Soviets.

The government of Austria is a coalition government. As a result most of the measures promulgated have failed to satisfy completely either of the majority parties, but in nearly all cases workable compromises have been achieved.

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The present government has consistently opposed Russian encroachment. It has refused to give clear title to Russian-seized enterprises or to be tempted by spurious partnership propositions. It has consistently worked for the economic unity of Austria, has opposed Russian transgressions and policies with regard to the seized German assets and has arduously demanded the return of Austrian prisoners of war. It has shown willingness to trade with countries of the Eastern Bloc, but trade with free currency countries has been favored. Generally the record of the government is one of firm opposition to Russian pressure but without hostility to Russia.

The present government was elected in November 1945 for a term of four years. The Constitution gives the President of the Republic power to dissolve Parliament before that time, and there is some Communistic agitation for such a move. In view of the comparative popularity of the present government, which gives a fair representation to the various political groups, it does not appear likely that such action will be taken.

Public Safety and Denazification

One of the first problems of the United States Forces was the re-establishing of an Austrian police force in the U.S. Zone. Nazis were removed and replaced by dependable individuals. The police force was uniformed and equipped to a limited degree, and excellent cooperation was established between the United States Military Police and the Austrian police.

In Vienna the problem was complicated by quadripartite control and by the establishment, by the Soviet Element, of a political police which was almost entirely Communistic.

Denazification proceedings were closely associated with the police

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problem. All Nazis who were in arrestable categories were taken into custody by American Security Troops, with the cooperation of the reconstituted Austrian police, and placed in detention camps. The Austrian Parliament passed denazification legislation and reported regularly on the purging of Nazis from government payrolls. The problem in private industry is extremely complicated. In the American Zone the United States Element has insisted that Nazi party members be dismissed from any position of responsibility. After much urging the Austrian Government produced a draft of law defining the character of industrial activity and the type of responsibility which should be closed to former Nazi party members. This law was unacceptable to the Allied Powers and no further action has been taken since.

DEVELOPMENTS IN THE SOCIAL FIELDS

Public Health

Protection of the health of United States troops, as well as of the population of occupied territories, became an urgent problem after VE Day. Local health authorities were assisted in checking the spread of contagious disease and, in case of need, were supplied with drugs and hospital equipment.

The United States Element, by the end of 1946, had furnished to the Austrian Government 17 75 tons of medical supplies and had assisted in the distribution of these supplies to the population. The stocks consisted of captured enemy medical supplies as well as imported Military Government medical stocks. Twenty-four complete former German Army hospitals, with an average of 300 beds each, were turned over to the Austrians, and 27 ambulances were delivered to Vienna.

A total of 484 kilograms of captured raw narcotics was released to the

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Austrian Government and assistance was given in establishing a laboratory for processing these products for medicinal use. A poor nutritional situation had lowered resistance to disease. In Vienna and the cities of lower Austria, conditions were particularly dangerous. Active U.S. assistance, combined with the establishment of a control system for typhus and venereal diseases, was largely responsible for the fact that no outbreak of any of these diseases has assumed epidemic proportions. While typhus and other diseases appeared sporadically, the spreading of these diseases was brought immediately under control with the assistance of United States authorities.

Displaced Persons and Repatriation

The United States Zone in Austria, to a greater extent than any other zone, was faced with the problem of handling a large influx of displaced persons. In the course of some 18 months more than 950,000 passed into or through the zone and at times nearly a half million of these people were superimposed on the normal population of about 1,250,000. Among those displaced persons were individuals of 48 nationalities, former inmates of concentration and slave labor camps, discharged German Army personnel and refugees, including many Austrians who had fled from the advancing Russian armies. Since the end of hostilities, the problem in the U.S. Zone has been further aggravated by the infiltration of large numbers of additional refugees from areas under Soviet domination, principally Hungarians, Germanic minorities formerly residing in the Danubian states, and Jews from Poland, Hungary and Rumania.

Adhering strictly to the U.S. policies established for the treatment of displaced persons, the Commanding General of USFA segregated by nationality as far as practicable and gave preferential status to persons of neutral or allied

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nationality; ex-enemy nationals were given equal treatment with the Austrians. Extraordinary efforts were made to rehabilitate persons victimized by Nazi persecution for reasons of race, religion or political beliefs. The United States policy from the beginning provided that no displaced person of any nationality would be returned to his country against his will except as a war criminal.

A tremendous repatriation program was carried out. Since May 1945, 757,000 displaced persons returned to their countries of origin or resettled in other territories, more than 80% of them with active assistance of U.S. military authorities. The Army also helped in the transfer of more than 250,000 persons between Hungary and Germany. It assumed the burden for the care of the displaced persons as long as they remained in Austria, organizing the supply of food, housing, medical care and clothing, and directing the welfare work of UNRRA and other voluntary relief agencies.

More than 160,000 displaced persons remained in the U.S. Zone of Austria, including 15,000 Jewish refugees recently arrived from Rumania. Some of these people may still desire repatriation. The resettlement of others in western Europe, South America, or elsewhere will be slow and costly. Since it has long been evident that a considerable number of displaced persons will remain in the U.S. Zone for many years, strenuous efforts were made to reduce the administrative burden carried by both the U.S. Army and the Austrian Government. The displaced persons were required to become self-supporting to the maximum possible extent, pending their eventual repatriation or resettlement outside of Austria.

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Education

In the early days of occupation the schools and universities were closed. A large number of the teaching staffs had left Austria years ago for other countries to avoid Nazi persecution, many were inmates of concentration camps, and school buildings were used by troops or as places of refuge by displaced persons.

Austrian civilian authorities took steps to effect the return of some instructors, subjected others to a careful screening process, removed objectionable material from textbooks and other school media and revised curricula and courses of study. The U.S. Military Government authorities gave their fullest assistance and cooperation in this undertaking.

With the beginning of the school year in September 1945, most of the school buildings again were available for use; some repairs had been made and facilities were provided for approximately 85% of all children of elementary school age, and 70% of those of secondary school age.

High schools and universities reopened to a limited extent but with greatly reduced staffs, depleted and disorganized facilities, and severely damaged buildings.

In 1946 and 1947 attendance in elementary schools was back to normal, and conditions in the secondary schools also showed further improvement. Adult education increased and universities recorded the highest enrollment in ten years.

The continued shortage of teachers, books and supplies was partially overcome by short sessions, double shifts and large classes. Teacher training institutions operated at full capacity and with increased enrollments.

Action by the Military Government was generally limited to emergency

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assistance. More than 300 textbooks were examined by educational experts of the occupying powers and more than 200 of these were approved. Hundreds of tons of book paper, linen backing board and other materials were procured. Textbooks and manuals formerly used in the U.S. Army Information and Education Program were turned over to the Austrian Ministry of Education for use at all levels of Austria's schools. U.S. authorities succeeded in locating some 500 tons of evacuated technical apparatus, scientific and research equipment and caused its return to Austrian universities. Educational films were examined; some were banned or revised, but the majority were approved. Scientific and technical journals were obtained from the American Library Association for use in the Austrian school system.

As a result of ideological isolation under the Nazi regime, most Austrian educators have been out of touch with educational developments in other countries. Others have suffered from the war or have been eliminated by political considerations. Many former teachers have established citizenship in other countries. These factors illustrate some of the handicaps to complete rehabilitation of the Austrian educational system.

Ecclesiastical Affairs

When the U.S. Forces entered Austria in early 1945, the Nazis had not only suppressed but actively persecuted clergymen and religious organizations and had ordered the closing of all places of public worship. Ecclesiastical and institutional properties with the exception of the church buildings were confiscated, and even these were stripped of bells and other materials which could be used in the Nazi war effort.

U.S. Military Government has restored freedom of worship and religion

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to all Austrians, church properties were returned and restored, and attendance at services has greatly increased. The churches are attempting to resume their charitable, social, cultural and educational programs. Repairs are being made to properties as fast as materials become available.

Churches are contributing to the denazification process by appropriate sermons, lectures, newspapers and pamphlets. With poverty, hunger, cold and employment at mere subsistence levels abounding, the churches face great difficulties in preventing the civilian population from becoming an easy prey to all sorts of demagogic attempts. They perform a significant service in keeping up popular morale during the present period of material hardship, by emphasizing the resources derived from spiritual values.

Press, Radio, Literature, Art

The U.S. Forces in Austria were accompanied by representatives of the Information Services Branch. Their first move was to shut down all publishing activities in the U.S. Zone of Austria. Then began the task of rebuilding the press, radio and theater along lines conforming to western democratic conceptions.

The Austrian press in general is a party press, though in the Western Zones there are a few newspapers without party affiliations.

The U.S. authorities established and continues to support daily publications of their own in Innsbruck, Salzburg, Linz and Vienna. The most important of these is the "Wiener Kurier," with a daily circulation of 300,000.

The U.S. Forces established and supervises radio network which is recognized by the public for its straightforward presentation of the news.

In the important field of ideological reorientation, the United States Element has accomplished much in presenting the story of American democracy to

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the public. Reference and lending libraries have been established, and hundreds of volumes of American literature and the latest issues of more than one hundred U.S. magazines and journals are thus made available to the Austrian public.

The U.S. authorities have greatly contributed to the rehabilitation of Austrian cultural activities by supplying pertinent literature on world developments during the seven years of Austrian isolation. They also returned many million dollars worth of art treasures belonging to Austrian institutions but held in concealment in Germany.

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ECONOMIC PROBLEMS OF AUSTRIA

Synopsis

Austria's basic economic needs are food for her people and fuel and raw materials for her factories. Since a portion of these needs must be imported, Austria must sell goods and services to other countries in order to achieve a balanced economy.

Even in the best crop years, Austria has not been able to produce more than 75% of her food requirements. During the years of German occupation and war, agriculture suffered from arbitrary crop regulations set up in the interest of the German Reich rather than of Austria, and the lack of supplies, equipment and manpower which developed then has continued, with the result that the country is at present unable to produce more than about half of its required food supply. Agricultural rehabilitation is a slow process which will take at least three to five years and will require large quantities of fertilizer and machinery. There is also room for improvement and modernization of farming methods.

Austria normally can produce almost all of her brown coal requirements, but more than 90% of the industrially important hard coal must be imported. Since hard coal is essential, either as fuel or as raw material to nearly all of Austria's industries, this is the country's basic industrial import need.

Manufacturing industries, which produce a major share of Austria's exportable goods, must import raw materials and semi-finished goods for processing. This is especially true in the important textile field, where requirements include cotton, wool, hemp and other raw materials, as well as yarn and semi-finished cloth to be turned into finished products. The metal-working

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industries need zinc, copper, lead and various alloy materials, and certain types of machinery must also be imported. Austria normally produces most of her own railroad rolling stock, but at the present time imports are needed to overcome shortages caused by destruction coupled with meager replacements.

To balance these and other import needs, Austria is potentially capable of exporting a variety of items urgently needed by other countries. The dislocations of war have crippled her capacity to produce these items, and the proposals for aid to Austria under the European Recovery Program aim primarily at the restoration and development of her productive facilities. A balanced economy -- and ultimate termination of the need for aid -- depends on building up exports to a point where they will pay for imports.

The principal natural resource providing a basis for Austrian exports lies in her forests. Wood and paper products in a great variety of finished and semi-finished forms constituted, before the war, 23% of Austria's exports by value; but their importance is even greater because the raw materials are obtained within the country. Today, Austria's forests are threatened. Serious overcutting during the years of German occupation have depleted reserves, and corrective measures must be taken by decreasing cutting and increasing reforestation programs to restore a normal balance. Exportable surpluses of other natural resources are limited. In normal times, Austrian mines can support some exports of iron ore, magnesite, graphite and salt.

Oil was discovered near Vienna in recent times but was not developed intensively until Austria became part of the German Reich in 1938. Since the war, large quantities of Austrian oil have been shipped to Eastern Europe. Up to the present, the Austrian economy has not benefited from such exports because

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Soviet occupation authorities have retained control pending a settlement of the German external assets question.

Electric energy obtainable by harnessing the large potential water power in Austria's western mountain areas represents another potential export item. Even at the present stage of hydro-electric development, surpluses of power are already available.

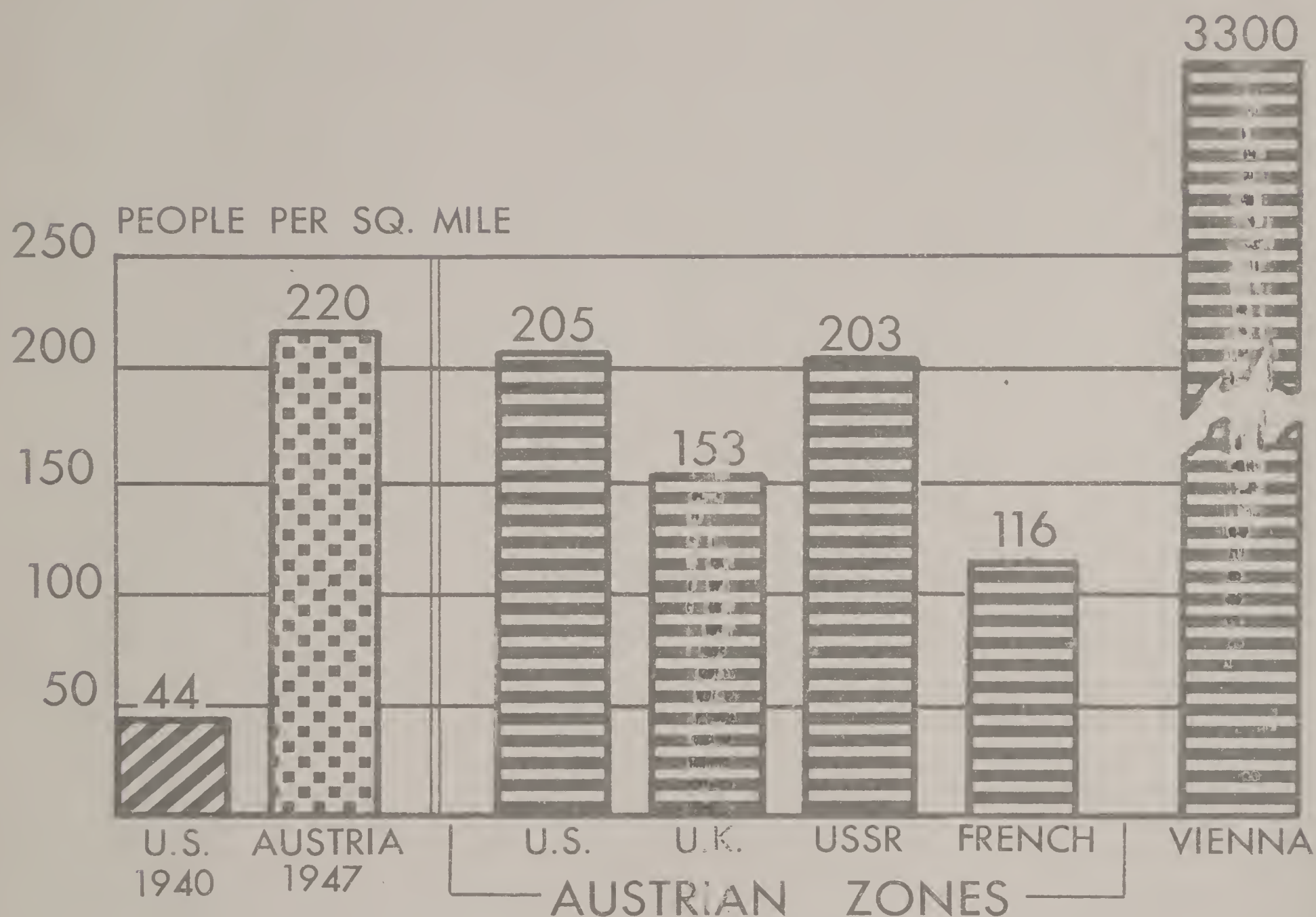
Before the war, revenues from Austria's large tourist trade and from transit freight and handling charges were important sources of foreign exchange. It is expected that this important aid in achieving a balance of payments will again be available with the return to more normal conditions.

Other Austrian export items are dependent for their production on importation of raw materials or semi-finished goods. Items expected to be important in this class of exports are metallurgical and paper products, textiles and leather goods. Increasing exports will also be derived from the recently developed chemical industries.

Thus far the supply of raw materials and semi-finished products required by most manufacturing industries for processing has been entirely insufficient to enable these industries to produce sufficient quantities for domestic consumption and exports, therefore, are at a small fraction of prewar levels.

Conversion and adjustment of Austria's industrial plant to postwar conditions presents serious problems. Most of the machinery is of German manufacture and of comparatively recent origin, with years of productive use remaining. Purchase of replacement parts, however, is difficult because of existing regulations in the German Bizonal Area -- the center of German machine

POPULATION DENSITY OF ZONES & COMPARISON OF AUSTRIA & U.S.A.



The largest densities appear in the U.S.S.R. and U.S. Zones, with lesser population per square mile in the more rugged sections of the country in the British and particularly the French Zone.

The large population concentrated in the city of Vienna raises the average density for Austria to a level higher than that of any of the zones.

Austria has five times as many people per square mile but only about half as many as Potsdam Germany.

For Austria as a whole, no significant population changes have occurred during the last fifteen years. Regionally however the changes, were considerable, as shown by the following table:

	POPULATION			
	PREWAR AND PRESENT		Increase	Decrease
	1934	1947		
U.S. Zone	947,729	,297,700	37%	
U.K. Zone	1,441,270	,570,325	16%	
U.S.S.R. Zone	1,957,231	,952,266	1%	
French Zone	473,331	586,210	24%	
Vienna	1,935,946	1,574,785	---	19%
Total Austria	6,755,507	1,091,286	4%	

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industry -- forbidding barter transactions and permitting exports only in return for dollar payments.

Under provisions of the Potsdam Agreement "Appropriate German External Assets" in Austria may be applied against reparation claims. The Western Powers consider only bona fide pre-1938 German ownership as German assets, and assume that post-Anschluss German ownership is subject to scrutiny and that in many such cases a legal claim may be established by Austrians or others. The Soviets, on the other hand, claim that German ownership, whenever or however acquired, is definite proof that the property is a German asset and they dispose of such property accordingly.

In spite of many handicaps it is expected that, with initial external aid, Austrian production will eventually reach a level permitting sufficient exports to restore a balanced economy.

Austria began to reestablish foreign trade by means of barter transactions with several European nations, and normal trading on a limited scale was later established with several European countries where trade could be based on an exchange of the respective currencies.

The estimated balance of payment for 1947 shows a considerable deficit. In the immediate post-war period, outside aid to Austria had to take care of the most pressing needs, such as food, and thus was in the character of relief rather than rehabilitation. Long-term rehabilitation supplies, which are indispensable for a sound economic recovery, are expected to become available under the ERP.

Austria's financial structure was precarious when the Allies arrived in Austria. There is considerable uncertainty as to the ultimate fate of some of her important banking and insurance institutions because of the Soviet claims

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to certain German external assets. Inflationary pressure still exists, but the country has made great strides in reducing the amount of currency in circulation and in maintaining control over the upward movement of prices and wages.

The most desirable development for the rehabilitation of the country's economy would be an early peace treaty, but even under those conditions, Austria will continue to need outside help for several years to rebuild and maintain her economy on a sound basis.

Background of Austria's Economic Problem

For the second time in a generation Austria faces major problems of economic readjustment. The first World War had spared the country from the ravages of war but Austria, which had been the heart of the larger Austro-Hungarian Empire, became a small nation, deficient in food and raw materials.

At the end of World War II the eastern section of the country, agriculturally and industrially the most important part, was devastated and despoiled and the retreating Germans left it in complete chaos behind them. Railroads had all but ceased to operate, cities and factories were smashed by bombing, the remaining crops were diminished by unfavorable weather and lack of manpower, and food and other surpluses had vanished. Hundreds of thousands of displaced persons were roaming the countryside, looting and plundering.

Despite these conditions there were some compensatory aspects. In spite of war damage and subsequent heavy removals of capital goods by the Soviets, Austria's latent industrial capacity remained at a comparatively high level, largely because of industrial expansion initiated by the Germans in 1938 for their own purposes.

The oil fields near Vienna were rapidly developed during the war and

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if the Austrians can regain control over their output, they will have the benefit of natural resources by an important new raw material, were it not for the diversion of a major portion of the output to eastern Europe by the Soviet authorities.

In order for Austria to achieve economic recovery she must reestablish her foreign credits and trade. Exports are the vital thread on which a country's life depends when it cannot attain self-sufficiency in food supplies and is forced to import many of the raw materials for her finishing industries.

U.S. Economic Policy in Austria

U.S. policy is based on the Moscow Declaration which designates Austria as a victim of Hitlerite aggression rather than as an enemy country. Its aims are to assist Austria in her struggle to achieve a balanced economy which will insure an adequate standard of living. U.S. troops and nationals have not been allowed to use Austrian products and food or to purchase critical or rationed items.

Reparations, Deliveries and Restitutions

Before the occupation of Austria it was recognized that control and protective measures over certain classes of properties would have to be established in order to insure proper preservation and operation pending final disposition of such properties in accordance with policies agreed on by the four occupying powers. All properties in the U.S. Zone of Austria, owned directly or indirectly by German interests or nationals, were to be subject to reparation agreements among the occupying powers.

In the U.S. Zone, properties belonging to members of the United Nations and expropriated properties of victims of Nazi persecution were segregated and

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taken into custody pending their restoration to the owner or his authorized agents.

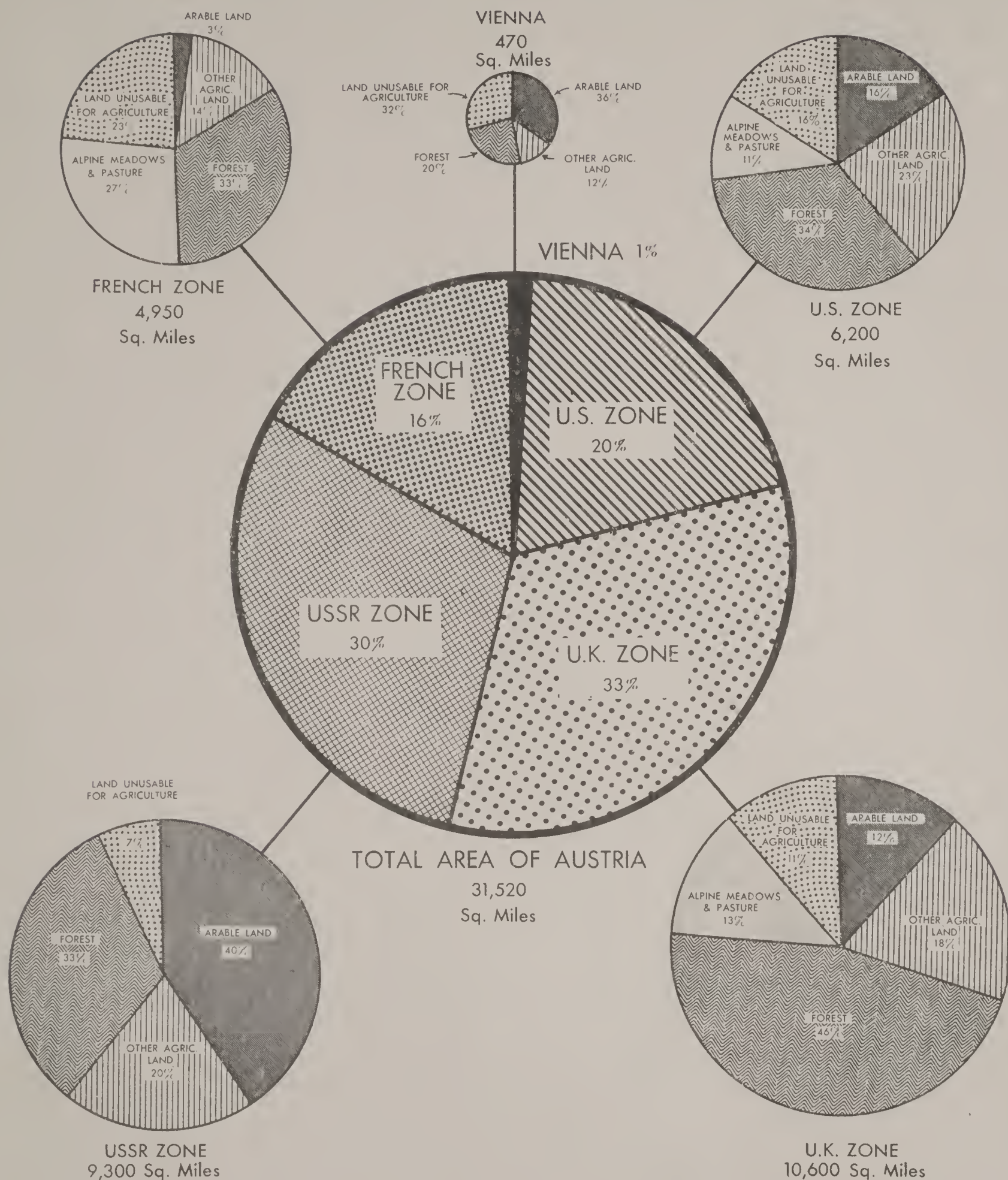
Among the German assets placed under U.S. control were numerous large plants, which are of paramount importance to the Austrian economy. Rather than let them remain idle, the U.S. Element, in July 1946, concluded the so-called "Trusteeship Agreement" with Austria. This permitted the Austrian Government to operate allegedly German-owned industrial and commercial properties, pending final disposition of the problem of German capital assets. The Austrian Government as trustee is accountable to the U.S. Forces in Austria for the proper use and maintenance of these properties. Moreover, coordination with the other western occupation powers has made possible interzonal movement of German-owned machinery and the Austrian Government may distribute and allocate such machinery to meet economic requirements.

Real and movable properties, title to which is claimed by any United Nations national or by a victim of Nazi persecution, are returned as claims are proved. This involves many removals of machinery brought to Austria from some other country by the Nazis and since used in production of vital goods, and has a disturbing effect on the progress of Austria's economic rehabilitation. Enormous quantities of stolen or unidentifiable movable properties were collected and warehoused. Much looted property has been returned to the proper owners and more claims are still being received.

The Soviet interpretation of the terms of the Potsdam and London Declarations relating to reparations and restitutions has differed from that of the Western Allies. Property to which a German national held title, prior to August 1945, is considered by the Soviets as bona fide German property and,

COMPARATIVE DISTRIBUTION OF LAND AREAS BY ZONES

AUSTRIA



Austria was divided into zones of occupation by agreement of the European Advisory Commission in July 1945. The zones vary considerably in area, population and economic resources.

60% of the area of the Soviet Zone consists of arable and other agricultural land. This compares with only 17% agriculturally productive land for the French Zone, which includes much mountainous territory with large areas of alpine meadows and unproductive land. The American and the British Zones range somewhere in between. A high percentage of forest areas is characteristic for all zones and explains the important role wood and wood products play in the Austrian economy.

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therefore, subject to reparation claims. No attempts are made to investigate the possibility of claims on such properties by owners who held them prior to the Nazi invasion of Austria in 1938, and may have transferred them to German nationals under duress.

In consequence, a number of industrial installations in the Soviet Zone, notably the valuable Zistersdorf oilfields and cable and electrical equipment plants, have been seized and their production diverted from the Austrian economy.

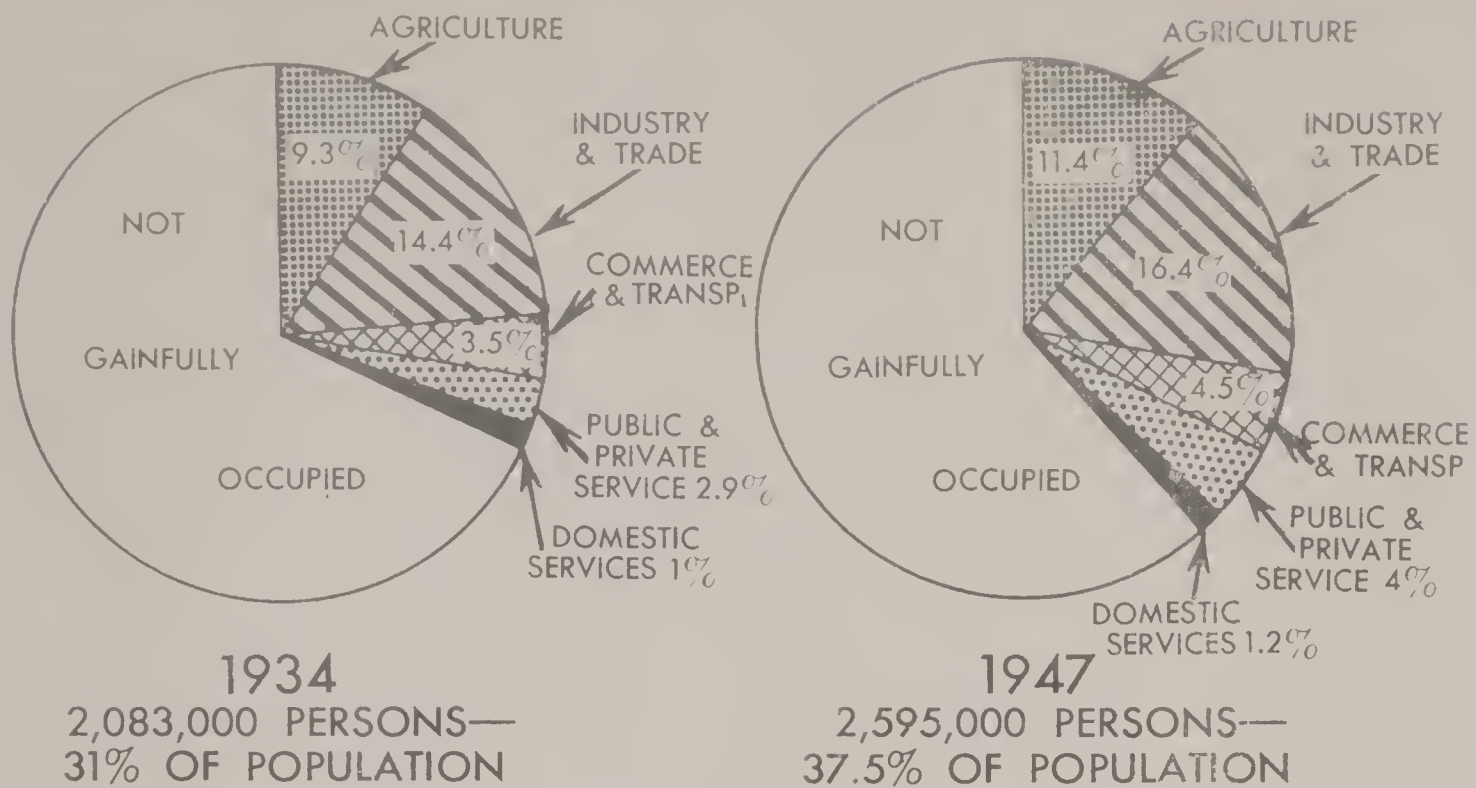
The Austrian Government has adopted a stiff defensive attitude, refusing to sanction or recognize transfer of German assets to Soviet ownership until it is proved that the properties were German-owned before the Nazi occupation. This issue has created a deadlock in quadripartite negotiations. The Austrian point of view has had the full support of the United States and the United Kingdom, and partial support of France.

Manpower and Employment

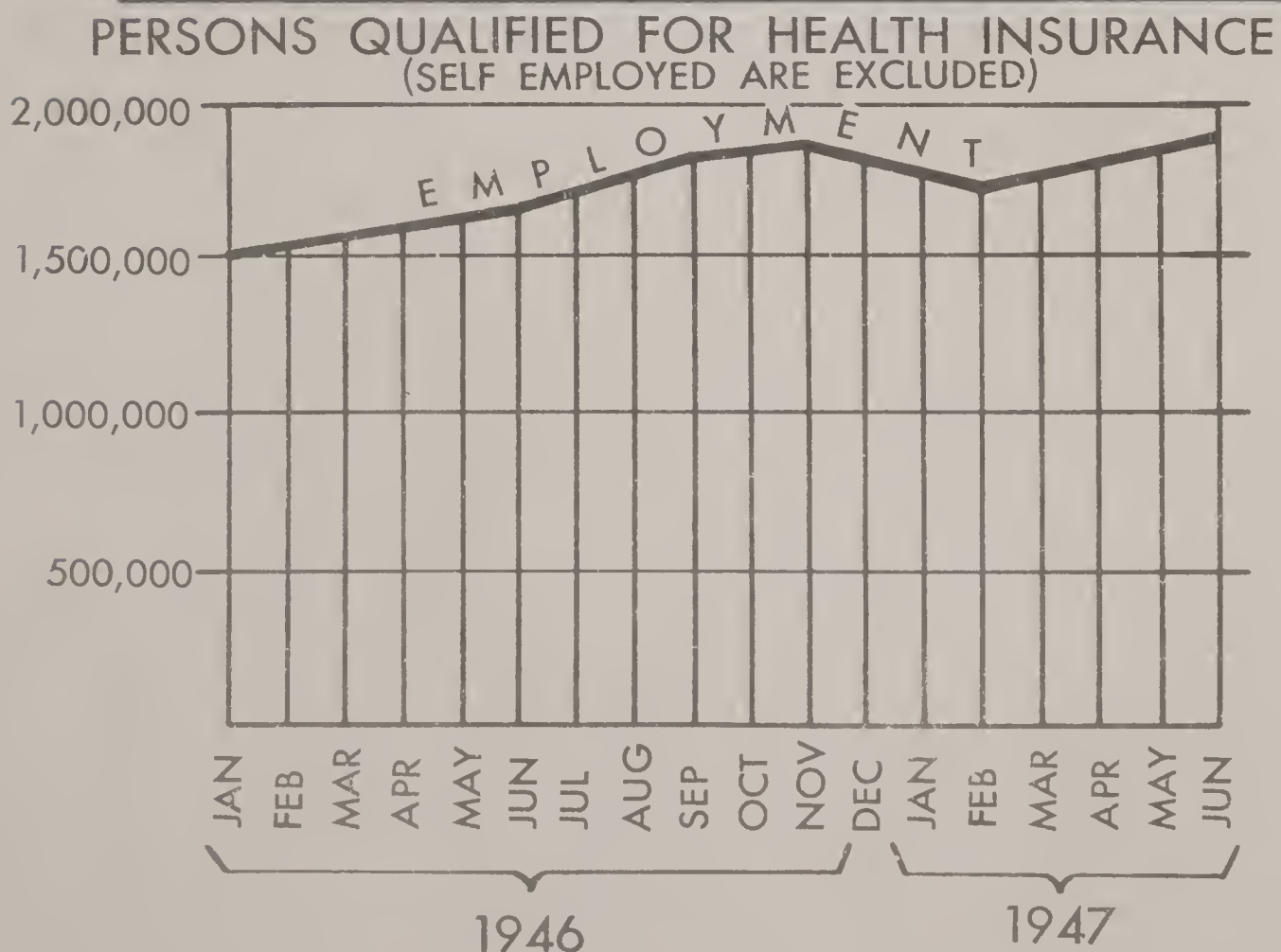
In the initial stages of occupation the labor situation was very serious. Hundreds of thousands of workers in the most productive age classes were in the army. They had been replaced by women, prisoners of war, foreign and forced labor. As soon as Allied troops entered Austria these people abandoned their tools and left their employment.

Slowly order was restored. Displaced persons who remained sought employment, and returning Austrian prisoners of war began to resume their former occupations. The accompanying chart illustrates the development of post-war employment. The acute fuel and power crisis of the winter months of 1946-47 caused a temporary drop in employment figures, but by the end of June the number

GAINFULLY OCCUPIED



RECENT EMPLOYMENT TREND



The number of gainfully occupied persons has increased about 20% over 1937 levels and the trend is still upward.

In spite of increased employment, both agricultural and industrial production figures are still much below prewar levels. This highlights Austria's low efficiency of production, caused by shortages of materials, inability to replace or maintain existing machinery and by low worker productivity due to insufficient feeding levels.

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of employed was in excess of 1937, and only slightly below the all-time prewar high reached in 1939.

By the end of June 1947 there were 17,058 job seekers as compared with 128,165 vacancies. It is evident that Austria is not faced with any unemployment problems in the immediate future.

Only in the category of white collar workers are there more job-seekers than vacancies. The greatest shortage of labor is in agriculture, but there is also an unceasing demand for skilled industrial workers. The fact that employment figures are higher than in 1937, while actual industrial production is less than half of prewar production illustrates the great drop in labor productivity as a result of more than two years of consistent underfeeding of the working man and of a lack of skilled labor and properly maintained equipment. Increased rations and industrial training schools will help to eliminate this stumbling block to Austrian economic recovery.

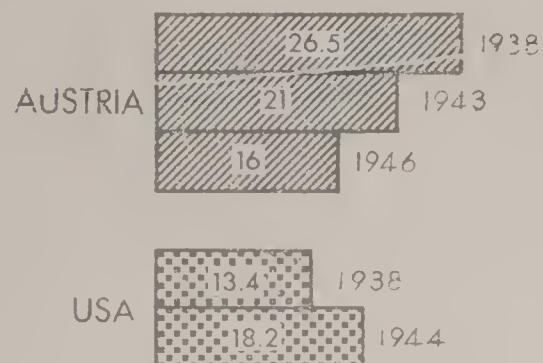
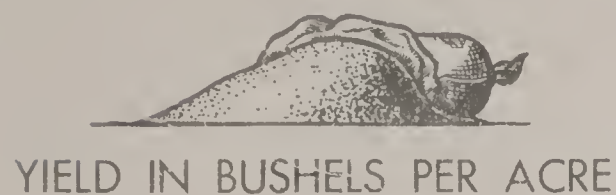
Mining Resources

Though Austria is deficient in mining resources, there are some ores in which the country is self-sufficient and which play an important role in her economy.

Foremost are the large iron ore deposits of the Erzberg in the British Zone, which are the basis for the Austrian iron and steel industry. Production in 1937 was 1,550,000 tons, of which 450,000 tons were exported. Austrian production amounted to 460,000 tons in 1946 and rose to 330,000 tons for the first six months of 1947.

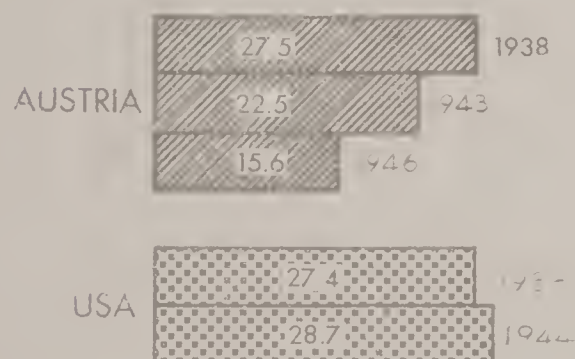
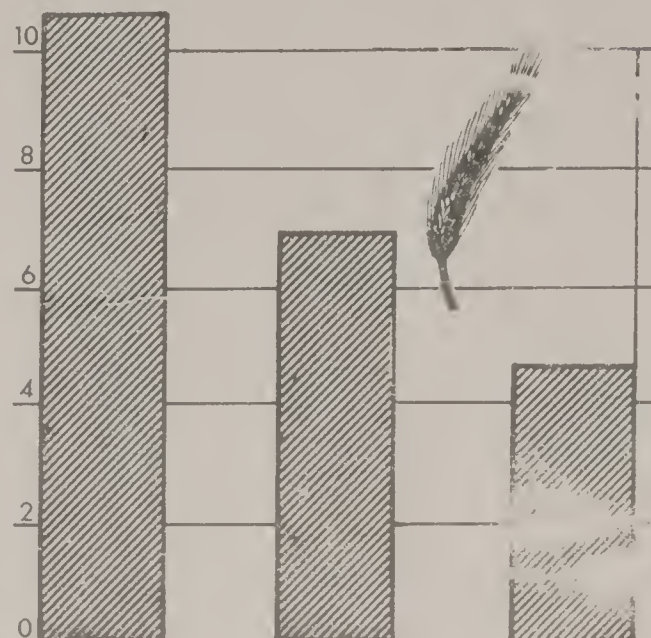
Magnesite, another important export item, was mined at the rate of 400,000 tons during the year of 1937, but production dropped to 95,000 tons in

PRODUCTION OF PRINCIPAL FOOD CROPS AND COMPARISON OF YIELDS



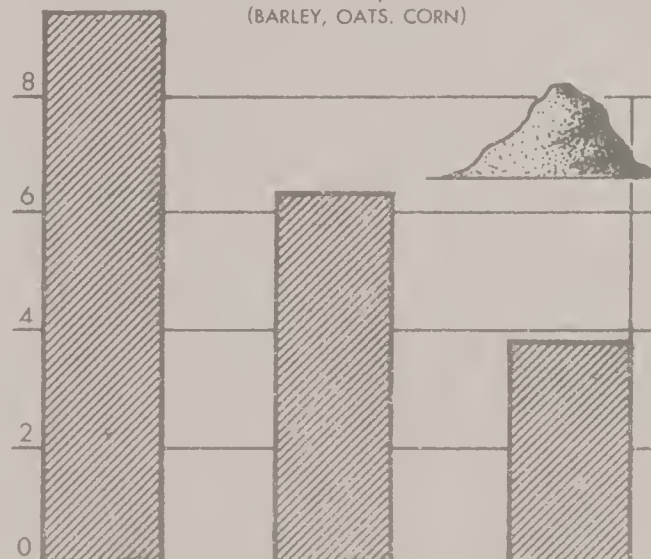
BREAD GRAINS

PRODUCTION IN 100,000 METRIC TONS

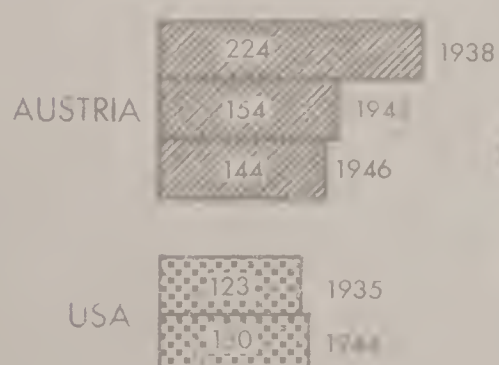


COARSE GRAINS

PRODUCTION IN 100,000 METRIC TONS
(BARLEY, OATS, CORN)

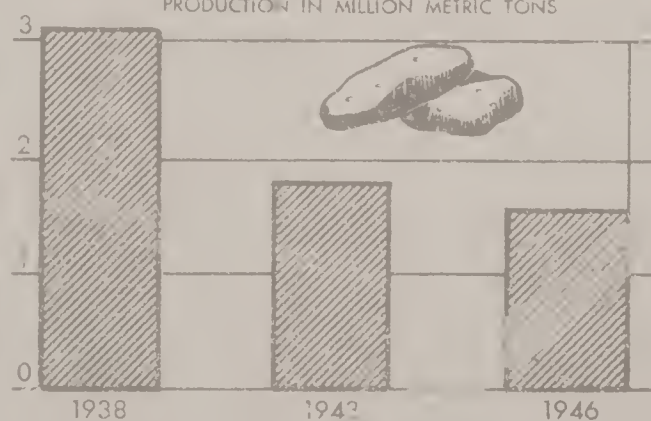


YIELD IN BUSHELS PER ACRE



POTATOES

PRODUCTION IN MILLION METRIC TONS



Production of principal agricultural crops is less than half of pre-war volume. To some extent this is due to a reduction in acreage planted, caused by manpower and seed shortages. The major portion of the decreased output is a direct result of a drastically reduced yield, because of lack of fertilizer.

Austrian agriculture never had reached the high degree of scientific cultivation achieved in Germany before the war. Its prewar agricultural yields still compared favorably with corresponding U.S. figures. At the present time, however, Austrian wheat and coarse grain yields are considerably below U.S. yields.

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1946. Graphite production decreased from a prewar level of 18,000 tons to an insignificant volume in 1946. The British Zone, which contains all the iron ore, magnesite and most of the graphite, also has all of Austria's lead, zinc and molybdenum ore mines. Some copper ore is mined in the United States Zone, but production is insufficient for Austria's internal requirements.

Another important mining product is salt. More than 90% of the known salt deposits are in the U.S. Zone, and Austria has an export surplus in this commodity. Except for salt, mining production has dropped greatly below the 1937 level, because of removal or lack of maintenance of mining machinery, and insufficient availability of qualified miners and of mining supplies. An increase in production depends on the import of capital goods, mining equipment and supplies and on improvement of labor conditions.

Food and Agriculture

Food. Food is the basic necessity for the economic life of a country. Dismemberment of the Austro-Hungarian Empire after World War I meant the loss of vital food producing areas to Austrian economy and the necessity to import nearly 50% of all food consumed. In the subsequent period of readjustment, Austria succeeded in reducing food imports and in attaining self-sufficiency in dairy products and sugar beets. However, even in her best year, 1937, the country could not produce more than 75% of total food requirements and had to cover the deficit by imports, mostly grains, from eastern European states.

With the Nazi occupation, changes were forced on the agricultural economy of the country, with emphasis being placed on the production of oil-bearing crops at the expense of grains. The general disorganization brought about by the war caused a further acreage loss of arable land, and soil

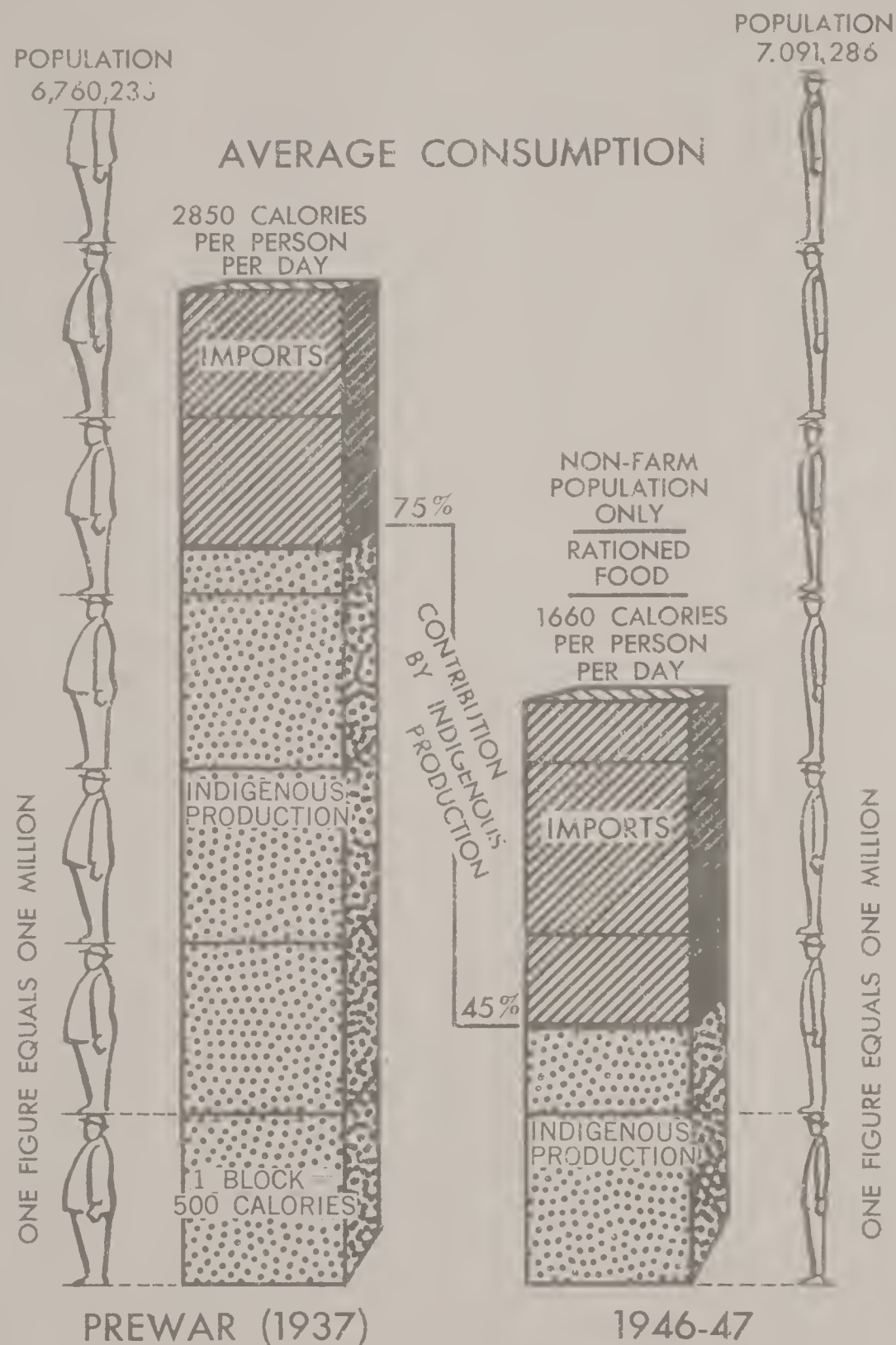
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exhaustion, due to insufficient supplies of fertilizer, resulted in far lower yields per hectare than in prewar years.

The combination of all these factors produced the extremely critical food situation which has existed ever since the end of World War II. The city of Vienna was particularly vulnerable to shortages. In May, June, July and August 1945, immediately after the withdrawal of the German armies, lack of food was acute. The Soviet Army, which was the only occupying power at that time, was not prepared for the task of feeding the large population and by mid-July the normal consumer received only 800 calories daily of the lowest quality food, mainly potatoes, dried peas and beans. Some industrial areas in the Soviet Zone fared even worse with about 600 calories per day for periods of weeks. The situation was not improved until September when the other Allied Powers moved into Vienna and provided additional foodstuffs, which brought the normal consumer ration to 1550 calories.

The period 1 September 1945 to 1 April 1946 might be called the "military phase" of the Austrian food problem, with each of the four zones an isolated cell. The U.S. Army made a tremendous effort to give needed food and supplied a total of 240,000 tons of food, including 70,000 tons for the French Zone. These additional supplies made it possible to provide 1550 daily calories for the normal non-self-supplying consumer in the U.S. Zone, 1000 calories in the French Zone, and 1200 to 1500 calories in the U.S. area of Vienna. The British also succeeded in maintaining a normal ration of 1550 calories daily. No accurate information is available for the Soviet Zone, but it is certain that the rations in the urban areas were far below even the low standards provided by the other zones. As for the contribution from indigenous production, it can be stated that the 1945 harvest was the worst in the history of Austria.

DECLINE IN PER CAPITA FOOD CONSUMPTION AND PRODUCTION



Before World War II Austrian food consumption was on a par with that of other Western European nations. In 1937 Austria covered three quarters of its consumption by indigenous production. During the Nazi regime Austria, was fitted into an over-all plan for greater Germany, and was forced to reduce its grain acreage in favor of other crops. The general disorganization of the Austrian economy after the war further aggravated the food problem and caused serious shortages. In certain sections of the country, particularly Vienna, consumption for weeks went as low as 800 calories per person per day. Indigenous production was supplemented only by contributions from UNRRA and from U.S. Army stocks. The 1660 calorie ration for 1936-47 was an average of the various graduations in the ration scale, ranging from 1200 for small children to 2800 for heavy workers.

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UNRRA became the sole provider for Austria after 1 April 1946. This was an important step forward because from this point all Austrian food resources were pooled and the ration scale made uniform for the entire country under a food distribution plan prepared by the Austrian Government. However, since it became evident that with a maximum Austrian contribution of only about 850 calories per day per person, the imported supplies would not suffice to maintain the 1550 calorie ration scale, UNRRA requested a reduction in the normal ration to 1250 calories. This reduced ration was maintained through necessity until November 1946 when it was returned to the 1550 level, where it has remained until the present. In addition to the normal ration various supplementary rations were issued to heavy workers, mothers and children. Between 1 April 1946 and 1 August 1947 the caloric intake of the average non-self-supplier amounted to 1660 calories, and at the present time it is 1780 calories.

Low caloric value rations, particularly if maintained over a long period of time, constitute a real menace to public welfare as proven undeniably by health statistics. A street weighing program conducted by U.S. authorities in Vienna and the U.S. Zone, showed that 73% of the population are below U.S. weight standards. During this period, the incidence of pulmonary tuberculosis increased alarmingly. Against a mean rate of 1.683 per 1000 population in the years 1940-44, the average in Vienna for the year 1946 rose to 2.769 and for the first six months of 1947 still was 1.958. Even more alarming was the increase in the infant mortality rate for babies under one year of age, which in Vienna rose from 12.59 per thousand in 1939, to a peak of 188.22 in 1945 and was at 72.56 for the first six months in 1947.

Insufficient and inadequate ration levels have continued for more than

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two years and have caused important repercussions in the economy of Austria. They have seriously affected labor efficiency, encouraged absenteeism and have resulted in lowered industrial production and consequent reduction of exports.

The 1946 and 1947 harvests failed to reach the anticipated goals because of the inadequacy of agricultural supplies and a disastrous drought during spring and summer of 1947.

Permanent improvement of the feeding level can be expected only through the gradual process of rehabilitation of Austrian agriculture and economy in general, which will increase indigenous production and eventually permit Austria to build up export trade and to finance her own food imports.

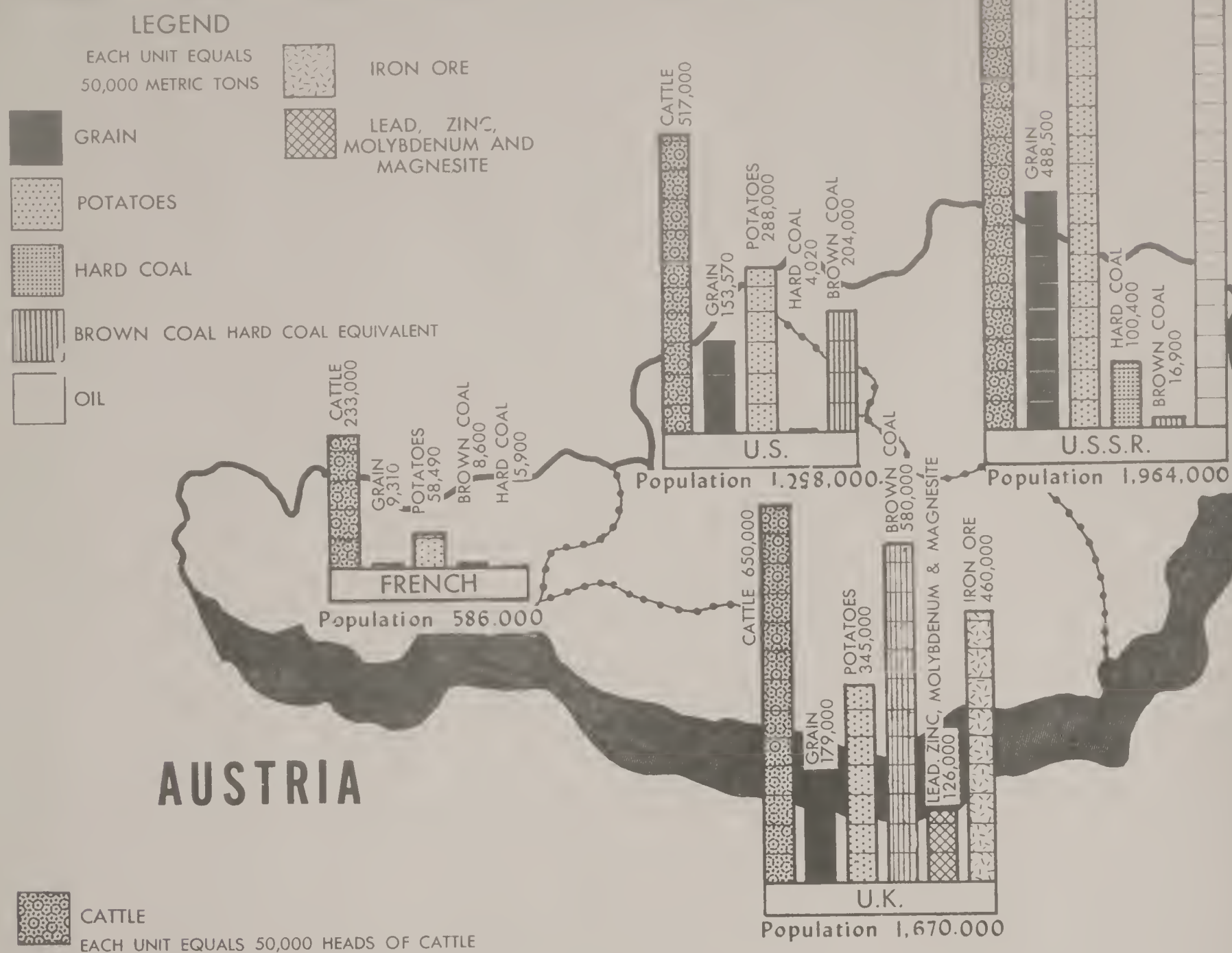
A continued shortage of almost everything needed for full-scale agricultural production, such as supplies of seed, fertilizer, pesticides, equipment and repair parts for German-made agricultural machinery continues to impede production.

UNRRA aid in equipment and supplies intended to rehabilitate agricultural production was inadequate in quantity, and lack of confidence in the Austrian schilling, low prices for farm produce, and absence of purchasable consumer goods kept many farmers from bringing their products to market.

Livestock. The farmers made attempts to increase livestock at the expense of grain deliveries, but because of shortages of fodder and oilcakes and a prevalence of animal diseases, livestock had decreased since 1937 in quantity and quality, thus reducing the supply of meat, fats and dairy products. Animal milk production dropped from 2100 kilograms per head of cattle in 1933-37 to an all-time low of 1200 kilograms in 1946.

The United States Element of the Allied Commission took immediate steps

PRODUCTION OF SELECTED AGRICULTURAL AND INDUSTRIAL COMMODITIES IN 1946 BY ZONES OF OCCUPATION



Natural resources and economic potentials of the four occupation zones differ greatly. None of the zones are economically self-sufficient. Some heavy industries, particularly steel production, are located in the western zones; most of the hard coal, oil, the finishing industries and agricultural production are centered in the Soviet Zone. The economic interdependence of the zones is therefore evident.

The U.S. Zone is a predominantly agricultural region, but also contains a small portion of Austria's brown coal and all of its salt. Of manufacturing industries textiles and leather are of some significance.

The U.K. Zone is the largest in area and furnishes most of Austria's brown coal and important ores, such as iron, lead, zinc, molybdenum and magnesite.

The Soviet Zone is in first place with respect to most of the important raw materials. It produces about 60% of Austria's grain, 95% of the important hard coal and all of its oil.

The French Zone is predominantly mountainous and poor in agricultural production. It has no mineral resources but is rich in hydro-electric power. Textiles are its leading manufacturing industry.

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to rehabilitate the badly depleted supplies of livestock. Veterinary supplies and equipment were imported, with assistance of UNRRA, to increase breeding through the establishment of artificial insemination stations. An expert U.S. advisor has been teaching these modern methods and the success of this important venture is encouraging.

Recovery of Austrian agriculture is necessarily a slow process. It depends to a large extent on the fulfillment of rehabilitation needs. Much of the agricultural acreage lost since 1937 can be regained, and farming methods can be improved gradually through education of the younger generation. The main and immediate problem is the enrichment of the depleted soil by increased use of fertilizers, most of which have to be imported.

Fuel and Power

Coal, oil and water are the three main sources of power in a modern industrial economy.

Austria is deficient in coal, but has ample supplies of oil, though at present, control of the production is denied her. A vast potential for hydro-electric power will allow further development of her present electric power supply to the point where a valuable export surplus will be available.

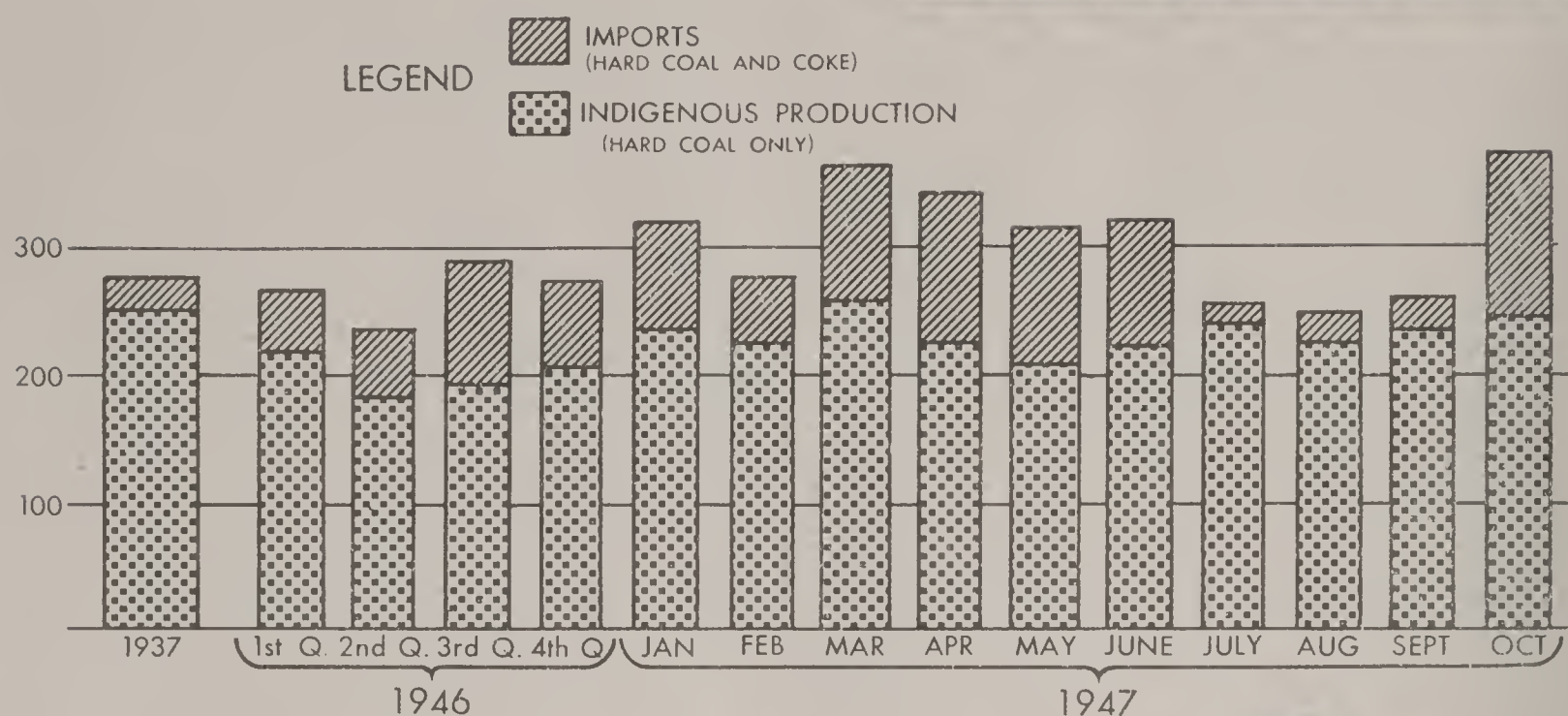
Coal. In 1937, Austria was almost self-sufficient in the production of brown coal. Deposits of hard coal, however, are negligible, and more than 90% of this industrially important type of coal had to be imported.

At the time of entry of Allied troops, the coal situation was disorganized. Mines had ceased to operate and coal imports from outside areas had stopped. Since no coal could be obtained from Austria's former chief suppliers, Poland and Czechoslovakia, the United States Element, followed by the British and

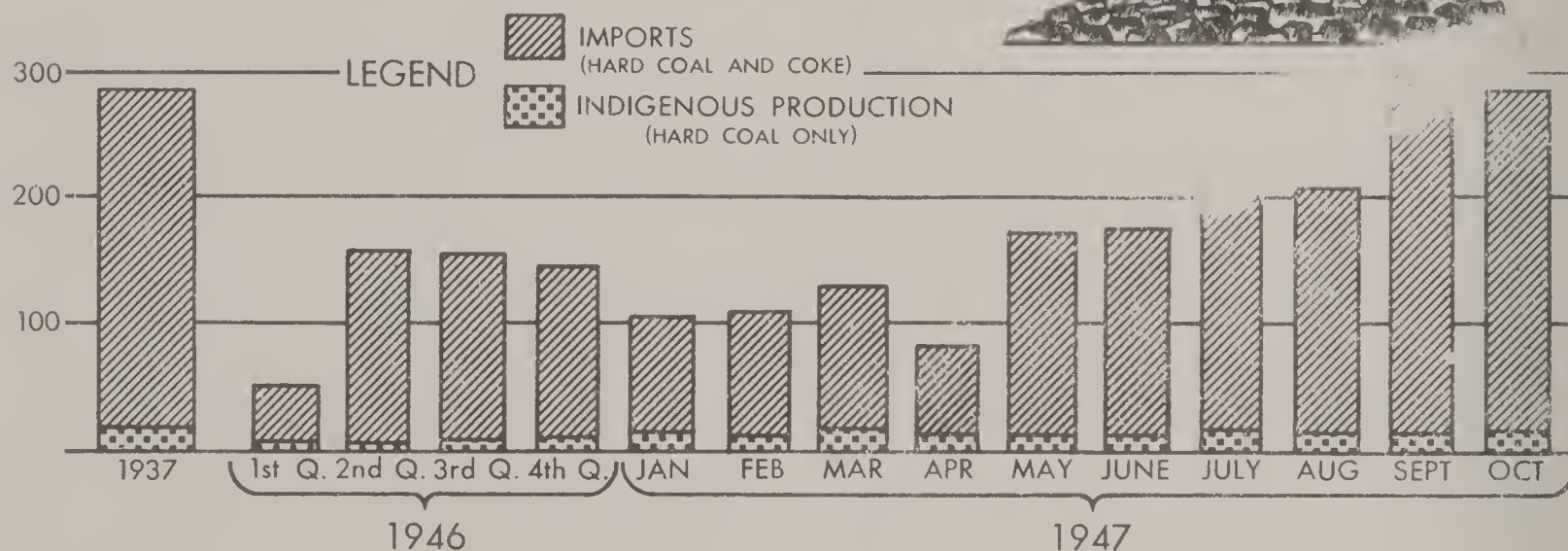
PRODUCTION & IMPORTS OF SOLID FUELS PRE-WAR & PRESENT

MONTHLY AVERAGES IN 1000 METRIC TONS

BROWN COAL & GLANZ COAL



HARD COAL & COKE



Hard Coal:

Hard coal which has more than twice the heating value of brown coal, and is used in the production of coke, steel, pig iron and gas, is by far the most important type of coal for the economy of the country.

Domestic production in prewar years covered less than 10% of requirements, and is now actually in excess of prewar levels. However, the potential productivity of Austria's hard coal mines is small, and almost all of this basic raw material has to be imported. Production difficulties in the main importing regions (Ruhr, Poland, Czechoslovakia) have necessarily restricted Austria, with a resultant adverse effect on the country's economy.

Brown Coal: (Lignite)

Austria can normally produce enough brown coal to cover most of its domestic needs. At the present time there is an extra drain on brown coal supplies because, while this type of fuel is properly suited only for domestic space heating, industry is forced to use lignite in combination with the small supplies of hard coal now available.

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French Elements, immediately began negotiations with the Allied occupation authorities in Germany for the allocation and shipment of Ruhr coal to Austria.

As a result of combined efforts by the Western Allies and the Austrians, local production of brown coal (Lignite) in 1946 was kept at 75% of 1937 production, and imports of brown coal were greatly increased. Imports of hard coal and coke, however, were less than half of the 1937 volume.

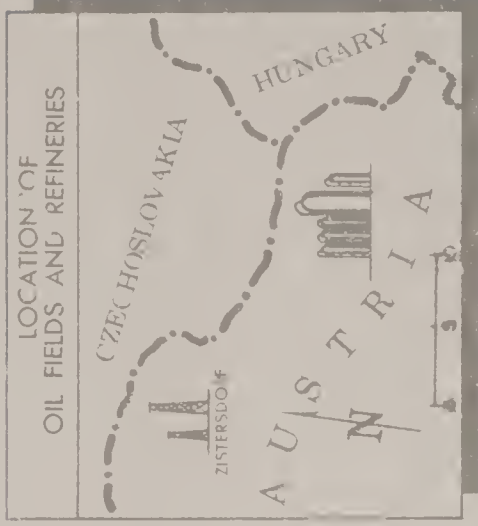
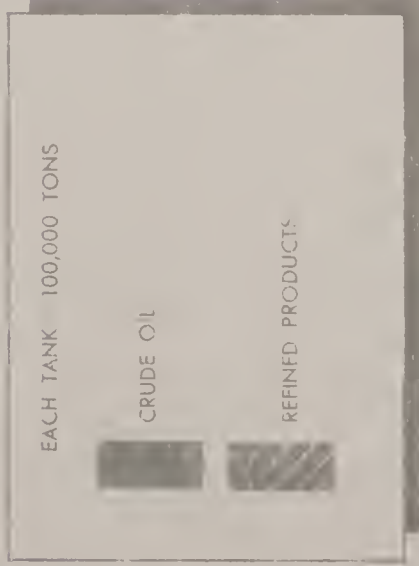
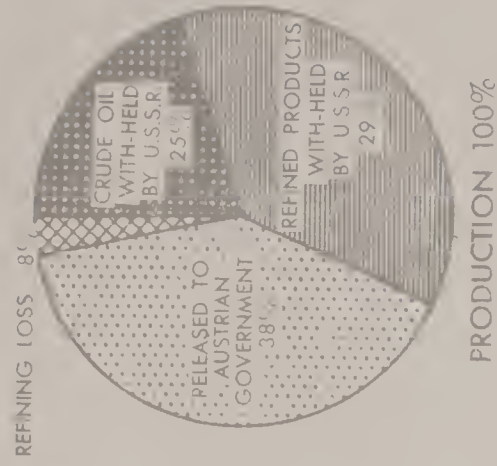
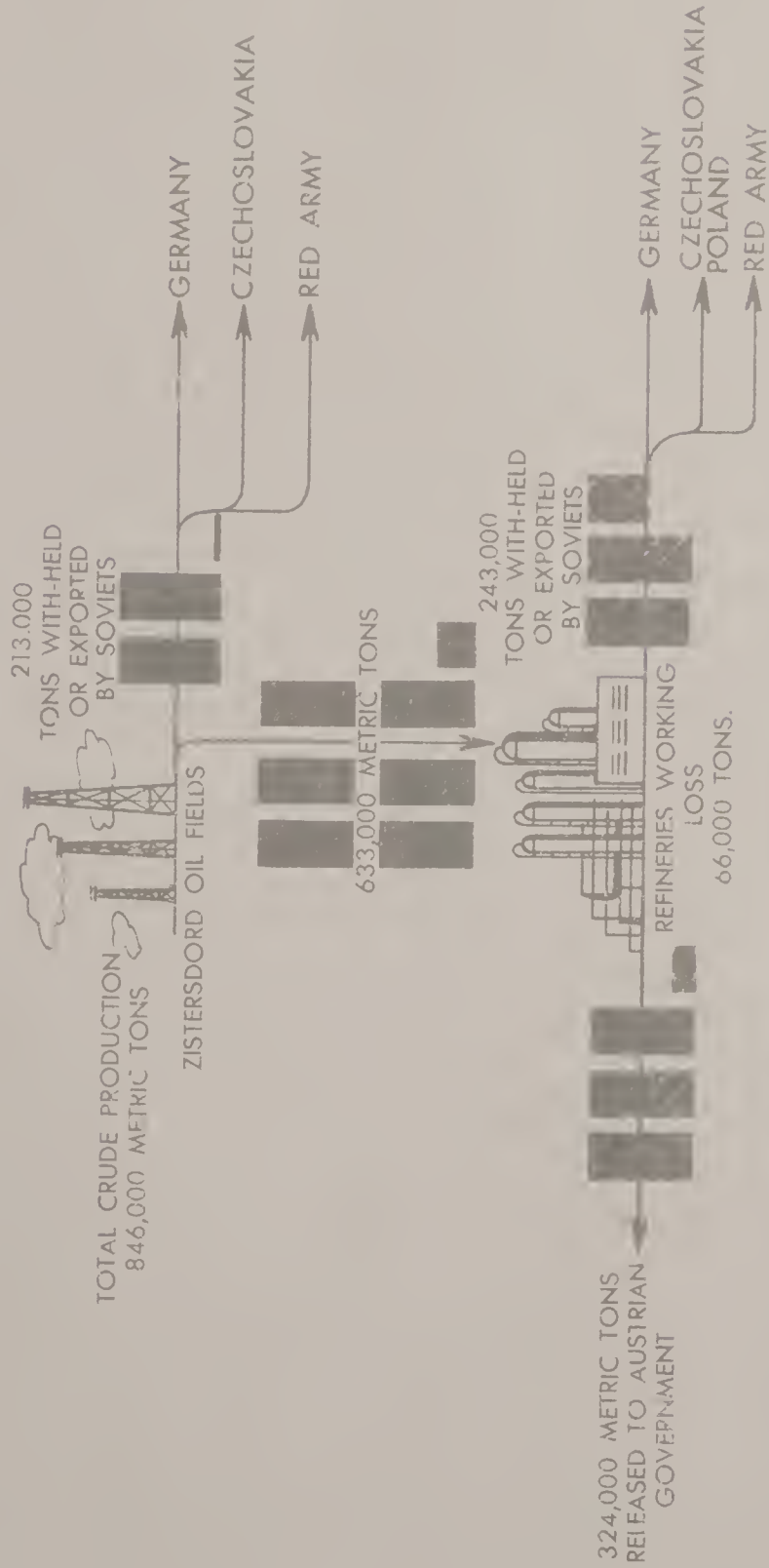
The greatest sufferers from the decrease of available coal in 1946 were the large and medium-sized industry groups which on a monthly average basis received only 53% of their 1937 consumption. The railroads were allocated 63% and small industries and householders 68%. Irregularity of deliveries was an added complicating factor. Stockpiles were small and when, with the beginning of cold weather, deliveries began to drop, the increasing demands could not be met. The crisis became so acute that in December 1946 and January 1947 Austrian industries, with the exception of a few key plants, were forced to cease operations for a period of four to six weeks. In 1947 coal production imports and regularity of deliveries showed considerable improvement, and it is anticipated that a recurrence of a coal crisis in the winter of 1947-48 will be avoided.

Oil. Oil was not discovered in Austria until after World War I. The first records in 1933 show a production of 833 tons, which was increased by 1937 to 33,000 tons. Large scale exploitation of the fields began with the advent of the Nazis. During the war years, production increased to 1,000,000 tons a year, and at the present time still is not far below that level.

The Austrian oilfields are entirely within the Soviet Zone and are under seizure by the Soviets, who allow Austria no interest or control at the present time. About 50% of the oil in crude or refined form is withheld by the

1946

PRODUCTION & DISPOSITION OF OIL IN AUSTRIA



The oil fields at Zistersdorf, located in the U.S.S.R. Zone, were developed to the present state of productivity during the period of German Occupation after 1938. Oil is an important potential source of exports for the Austrian economy. At present, however, over 50% of the output of crude and refined oil is withheld or exported by the U.S.S.R. The volume released to the Austrian Government in 1946 and 1947 fell far short of requirements. To reduce these shortages USFA authorized the supply of considerable quantities of diesel oil and gasoline from Army sources to the U.S. Zone and Vienna.

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Russians and what remains for Austrian use is insufficient for the country's minimum requirements. To relieve these shortages, the United States Element has been aiding the U.S. Zone and U.S. area of Vienna by providing certain quantities of oil and oil products.

If Austria had control of her oil resources she would have an exportable surplus of this raw material, which would constitute a valuable source of foreign exchange and hence play an important role in Austria's economy.

Electric Power. One of Austria's few advantages resulting from Nazi occupation is an increase in her developed hydro-electric power. However, developments under the German program were undertaken to serve the interests of the German Reich rather than those of Austria. The great reservoir plants of the westernmost provinces were intended to provide power for the industrial sections of western Germany, and were not connected with the Austrian grid. Until October 1946, the Tyrol was compelled to sell its surplus power in a buyer's market to the Bavarian utilities. The eastern provinces were left without sufficient hydro-electric power to meet the demands of their industries -- most of them centered near Vienna.

At the present time, hydro-electric power provides a small export surplus except during the winter months, when glacier-fed water supplies are low. At such periods thermal plants must take care of the deficiencies. The combination of lack of sufficient coal and of vastly increased demands by industry and domestic consumers during the cold season have combined to make the power supply in the winter of 1946-47 so precarious that the slightest disturbance of the delicate balance between power generation and consumption caused an immediate and complete breakdown of the electric power supply of Vienna and

ELECTRIC POWER

PRODUCTION, CONSUMPTION, IMPORTS AND EXPORTS

AVERAGE MONTHLY RATES IN MILLION KWH

LEGEND



THERMAL GENERATION



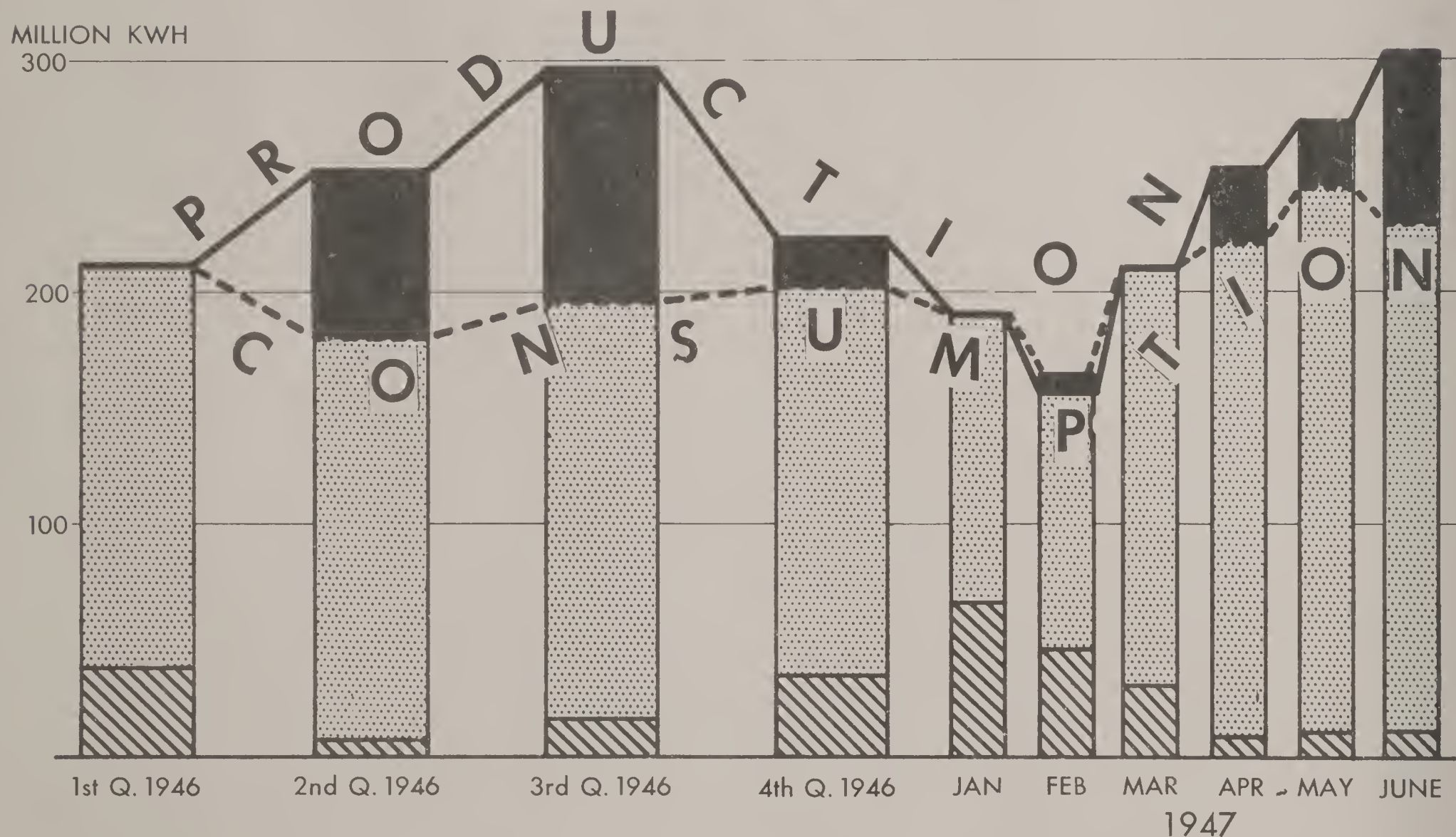
NET IMPORTS (Total Imports Less Exports)



HYDRO GENERATION



NET EXPORTS (Total Exports Less Imports)



Austria has large resources of water power in its extensive western mountain areas. Up to 1938 exploitation was limited, but during the period of German occupation construction of hydro-electric plants was greatly accelerated. The network established under the German program was calculated to serve the interests of the German Reich rather than those of Austria. The new hydro-electrical plants, therefore, were linked with Bavaria and Italy rather than with Eastern Austria (Vienna) where most of Austria's consumers live.

Only a fraction of the total potential capacity has been developed but electric power already is a not inconsiderable export item in Austria's economy. Export surpluses at the present time are available most of the year, excepting the winter months, when water supplies are at a low.

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the surrounding industrial area. Further development of Austria's large potential in hydro-electric power is desirable, but will require large capital investments.

The Power Balance. Energy from the various sources is interchangeable to a limited extent. Certain industries must continue the use of coal as a source of energy, but in others either oil or water power in the form of electricity can be substituted.

The greatest potential coal saver are the Austrian railroads. In the provinces of Vorarlberg, Tyrol, Salzburg and parts of Upper Austria and Carinthia, main lines are electrified, but the rest of the railroad system still depends on imported coal as an energy source. Austria is well aware of the great economic value of electrification and has a definite program providing for electrification of all main traffic lines of her rail system within 12 years. Such a development will substantially reduce coal imports.

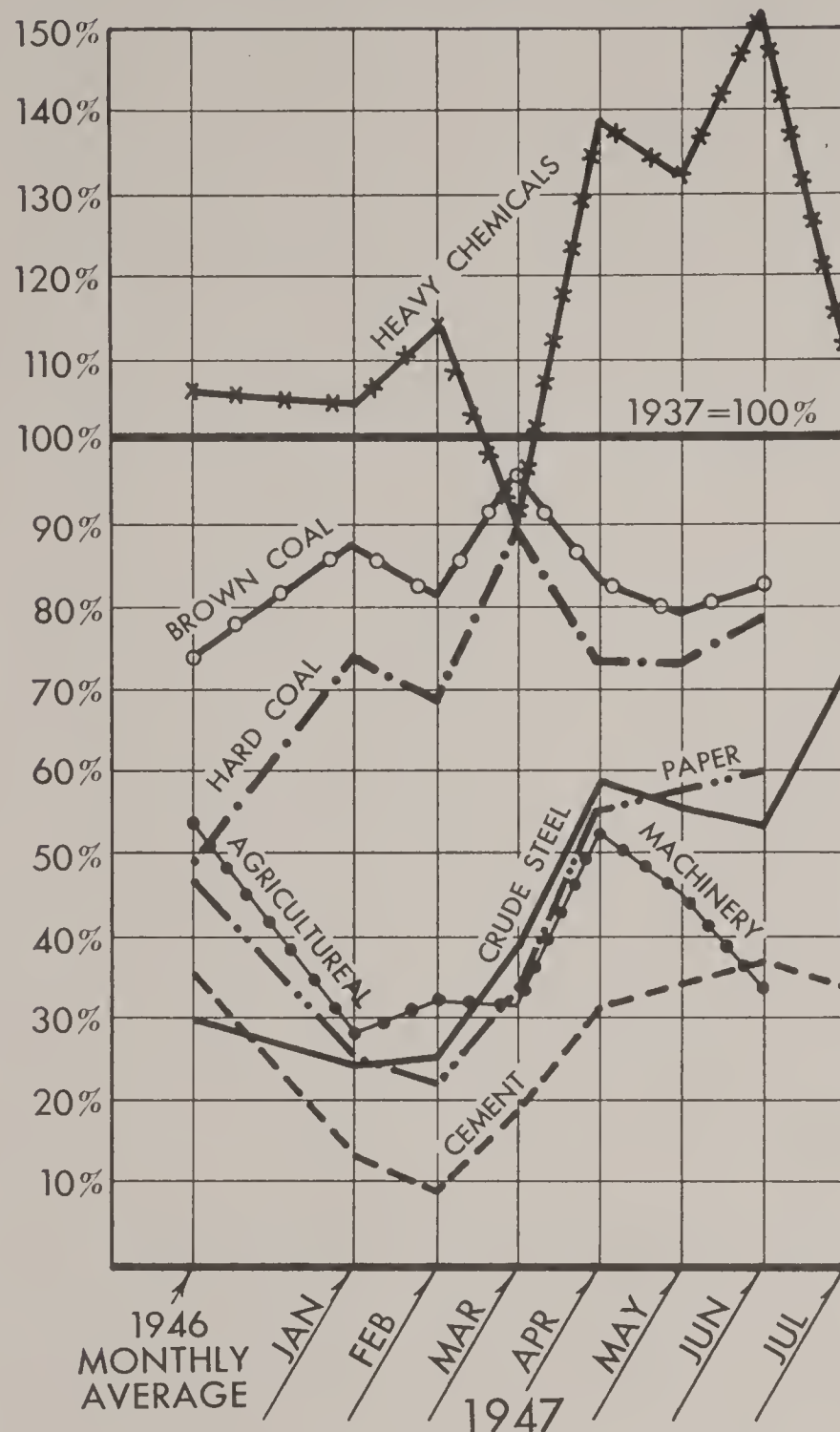
The return of control over her oil resources would result in further savings of coal and increase the degree of Austria's self-sufficiency.

Transportation

The Austrian State Railways form the backbone of the Austrian transportation system. During the war, railroad installations were the target objectives of the U.S. Air Forces, and post-war inspection testified to the accuracy of U.S. bombing. Artillery fire and demolition by the retreating German forces added to the destruction. More than one-third of the rails, many bridges and technical installations, and 25% of the State railways' buildings were destroyed or damaged. By December 1946 nearly all of the rails and most of the bridges and technical installations were again in serviceable condition, but shortages of construction materials delayed the repair of buildings. The present

POST WAR PRODUCTION OF SELECTED INDUSTRIAL COMMODITIES

(1937 MONTHLY AVERAGE=100%)



A definite recovery in industrial and mining production has taken place during 1946 and 1947. Present production levels of vital commodities show wide variations. No industrial index of production has been compiled, but in the summer of 1947 average industrial output was estimated to be slightly below 50% of 1937 production. Comparisons with 1937 levels may produce too favorable a picture, because industrialization of the country proceeded at an accelerated pace after occupation of the country by Germany in 1938, and present latent industrial capacity is considerably above 1937 production levels.

Although indigenous coal production, has shown a substantial recovery, Austria's hard coal resources can furnish only a small fraction of her requirements. Lack of sufficient imports caused a shortage of this vital raw material. This shortage was largely responsible for the pronounced dip in important industries during the winter months of 1946-47. The high level of heavy chemical industries reflects expansion after 1937, during the time of German occupation.

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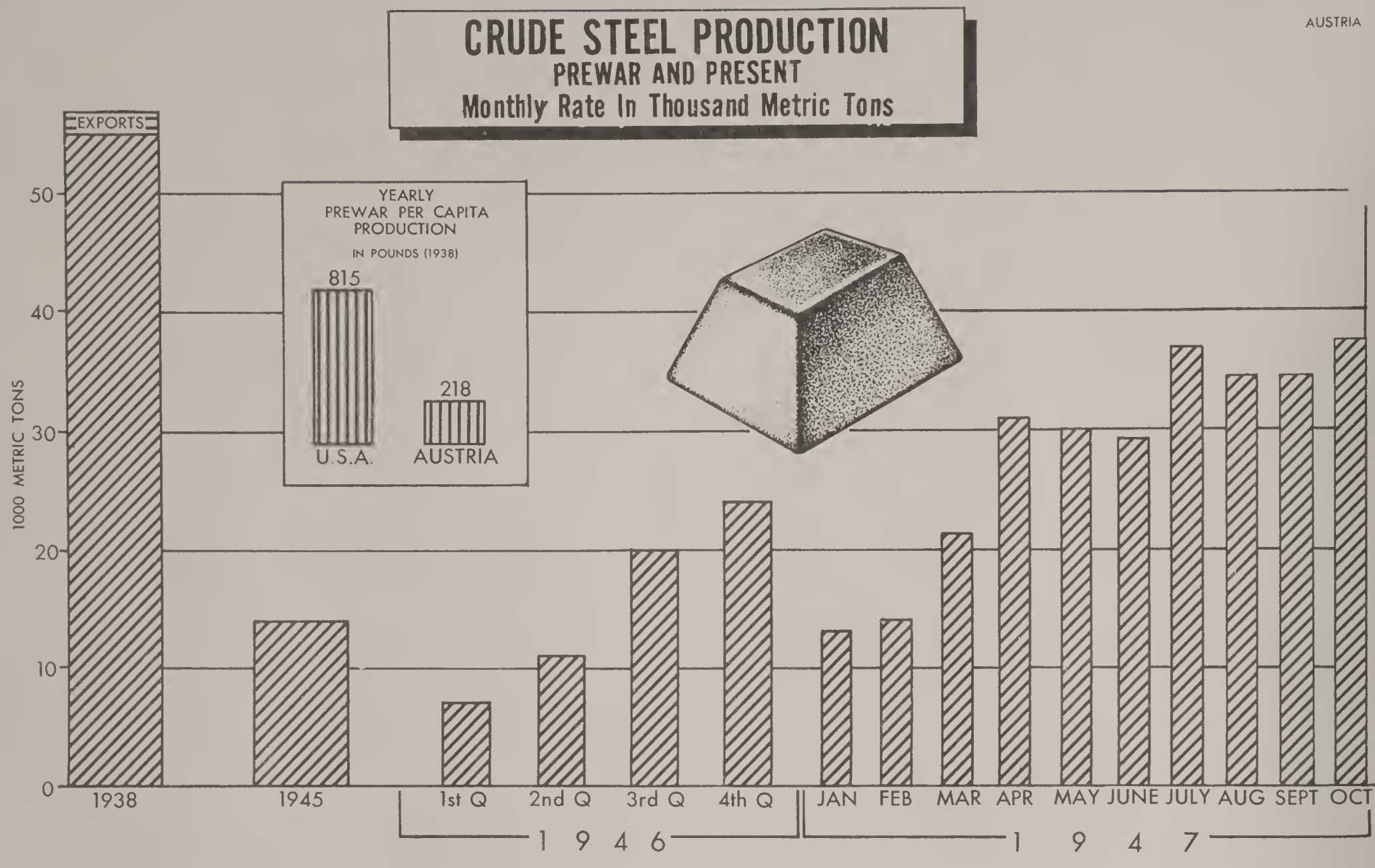
supply of rolling stock is satisfactory because of considerable quantities of abandoned cars and locomotives which were put into service. Much of this rolling stock, however, is subject to restitution proceedings. Inasmuch as Austria's entire rolling stock had been absorbed by the German Reich railways in 1937, it is difficult to establish Austrian ownership. The Allied Commission on 21 March 1947 unanimously adopted a resolution, as a temporary remedy, allowing Austria 25,000 freight cars and 5,000 passenger cars which is below 1937 levels. The question of allocation of locomotives awaits final settlement of reparations and restitutions.

Net tonnage carried by the Austrian railways in 1946 was about 74% of 1937, and the trend is upward. The heavy use of badly maintained rolling stock is a constant threat to the smooth functioning of the system.

Manufacturing Industries

General. Rehabilitation of Austrian industry is a complex and thorny problem. Under the Nazi regime, after 1938, Austria's industrial plant was greatly expanded and it is estimated that despite war damage, destruction and removals, industrial capacity today is at least equal to the 1937 level. However, German efforts in Austria were designed to complement Nazi Germany's war economy without regard to Austria's needs. A realignment of industrial capacities to meet the requirements of a small independent Austria should be the first step in the rehabilitation of industry.

The problem is complicated by a number of factors, as for instance (1) lack of raw materials; (2) difficulties in obtaining raw materials from foreign sources; (3) shortage of skilled labor; (4) improper redistribution of machine tools concentrated by the Nazis at centers of production; (5) shortages of



Austria's steel production does not compare with that of Western Europe's highly industrialized countries, such as Germany, France, Belgium, England and Sweden, but it is higher than that of most other middle European nations.

Prewar Austria's steel output was sufficient for its limited industrial demands, but increasing industrialization since 1938 has raised these requirements. During the first quarter of 1946 the monthly rate of production reached a low of 13% of the 1938 rate, chiefly because of shortage of imported coal. From then on gradual improvement in production was interrupted only during January and February of 1947. Production in the summer of 1947 rose to over 60% of the 1938 rate.

On a per capita basis prewar Austrian steel production was about four times less than U.S. production, reflecting the difference in the degree of industrialization and mechanization between the two countries.

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building materials; (6) absence of a comprehensive plan as a means of financing the reconstruction of damaged or destroyed plants, and (7) lack of cooperation on the part of Soviet authorities in supporting Austrian rehabilitation plans.

Iron and Steel. Austria's steel output has been sufficient to cover indigenous requirements and, in addition, to export small quantities of high-grade electric steel. Austria's production of this special steel amounted to 4% of the total world steel production in 1937 and represented almost one-fourth of Austrian steel production in 1946.

The rehabilitation of the Austrian iron and steel industry is in direct relation to coal imports. Production of pig iron came to a complete standstill after World War II. Some steel was produced from accumulated pig iron stockpiles, but only in August 1946 was operation of blast furnaces resumed at the Donawitz Works in the British Zone. With the exception of the winter 1946-47, production has shown a steady rise. In 1947, under a three-way contract between Sweden, Poland and Austria, Polish coal supplies for the large steel works at Linz were secured in exchange for steel to be produced for Sweden. If hard coal deliveries can be maintained at adequate levels, steel production, which at the present stage of industrial rehabilitation is of basic importance for Austrian economy, will be maintained in satisfactory volume.

Aluminum. Prewar capacity for aluminum production in Austria was 6,000 tons per year. The country lacks alumina and depends on imports from Bavaria for this raw material.

During the war, the Germans built a gigantic modern aluminum plant of 65,000 ton capacity at Braunau, Upper Austria, on the German border, which remained idle after the end of the war. Early in 1946 a quadripartite agreement

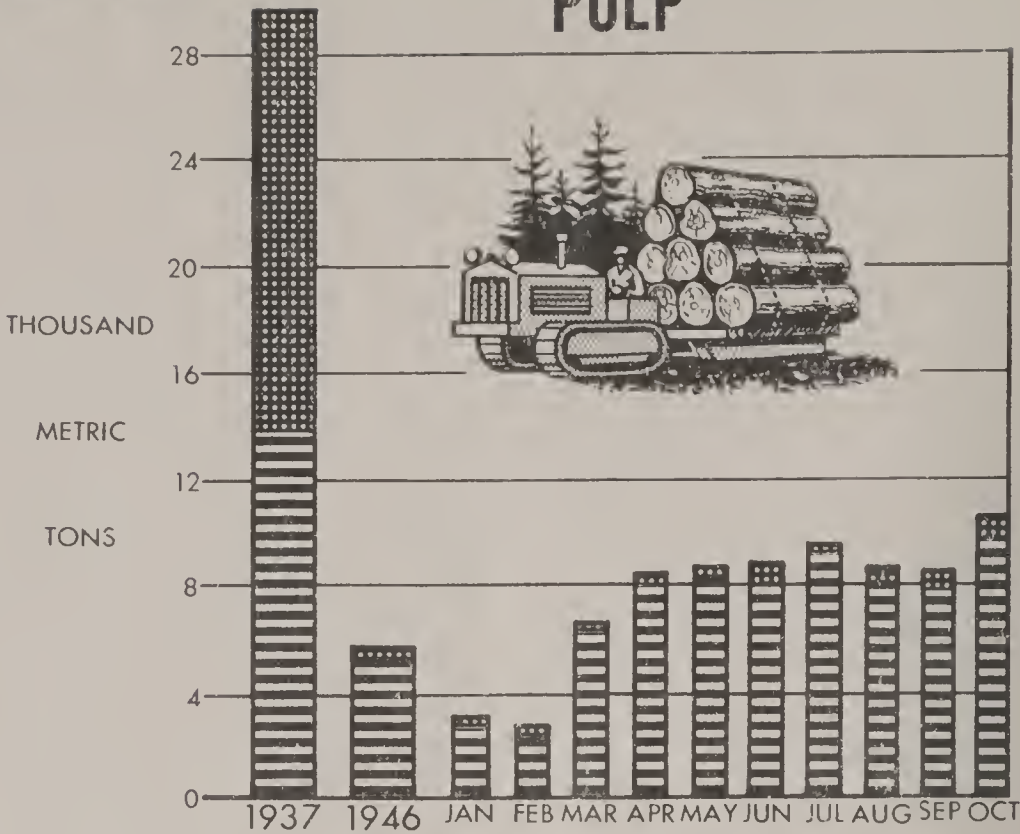
PULP & PAPER PRODUCTS

PRODUCTION & EXPORTS PREWAR & PRESENT

MONTHLY RATES IN METRIC TONS

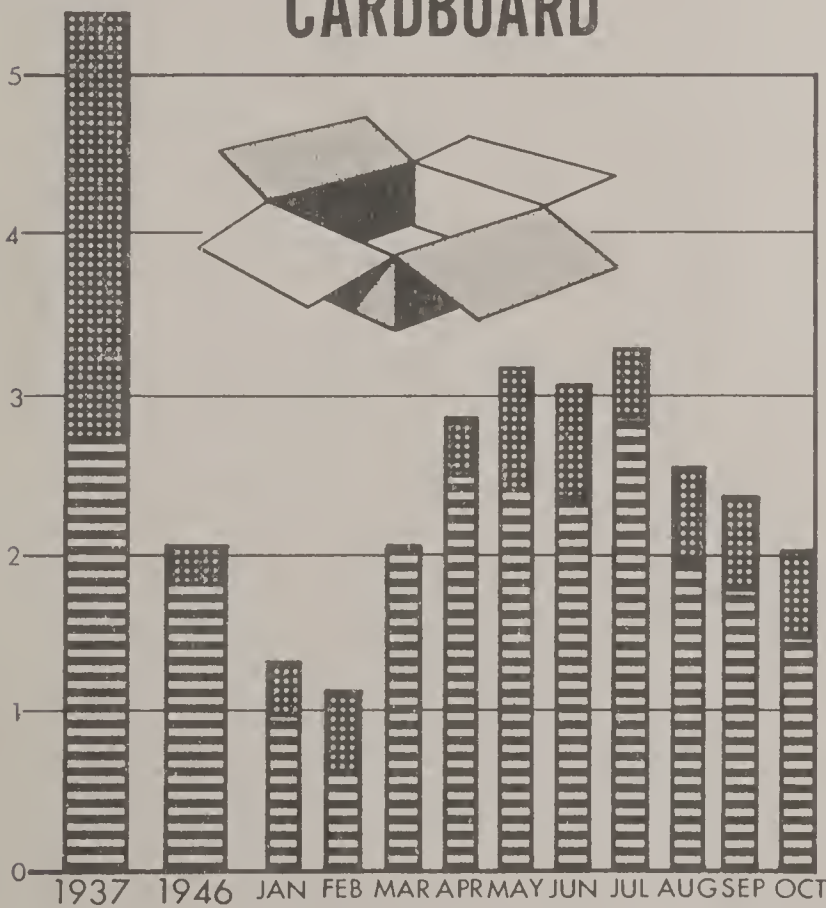


PULP

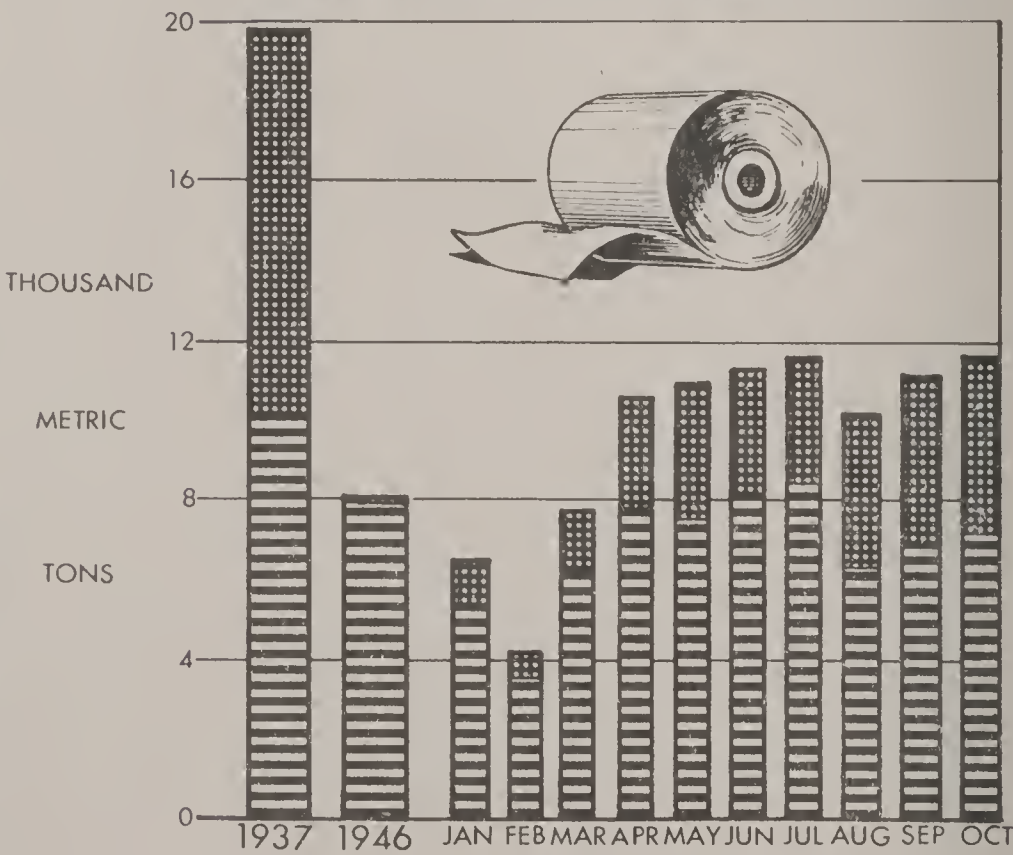


THOUSAND
METRIC
TONS

CARDBOARD



NEWSPRINT & OTHER PAPER



Austria's extensive forests have always been an important source for exports. Over-exploitation after World War I and particularly during the period of Nazi occupation will restrict cutting for a number of years. It is planned to utilize Austria's forest resources to better advantage for the country's economy by expanding exports of processed products rather than of timber and pulp.

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limited Austrian production of aluminum to 15,000 tons annually, but because of power shortages only 1035 tons were produced during that year.

Paper and Woodworking Industries. One of Austria's most important sources of raw materials are her large forests which cover the mountain slopes in the West and extend to the hilly country on her eastern borders. It has long been recognized that this source of wealth can be retained only by carefully planned exploitation, and the extent of annual cutting, proper reforestation and the rigid control of pests were strictly regulated by legislation.

Austrian industries, based on the timber resources of the country, have made important contributions to her foreign trade. In 1937, exports of wood and wood products paid for four-fifths of her food deficit. Ever since World War I, there had been a tendency to over-exploit Austrian forest resources, but after 1938 overcutting by the Germans began to assume alarming proportions.

Several decades of careful reforestation will be needed to restore Austrian timber production to prewar levels. Loss in revenue from decreased output can be offset by increased emphasis on the export of paper and paper products, prefabricated houses, furniture and other manufactured products.

Since the end of the war, timber cutting has lagged because of labor shortages and insufficient rations for forest workers. The paper industry suffered constant setbacks by the diversion of pulpwood to space heating — an extremely wasteful process brought about by lack of coal. Exports of wood and wood products, which had reached an approximate dollar value of \$59 million in 1937, dropped to \$2,642,000 in 1946, and quantitatively they dropped from 2,045,000 to 44,000 tons. The first six months of 1947 give promise of better prospects for the year's production. The export value of wood and wood products

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as of 1 July 1947, was \$5,006,000, more than double the yearly figure for 1946. Further increase of exports under present conditions could be achieved only by withdrawing consumer goods from home markets.

Engineering Industries. The engineering industries constitute an important pillar in the country's industrial economy. In addition to supplying the home market with vitally needed machines, tools and metal goods, they provide valuable export products.

The rehabilitation of these industries is difficult and is greatly retarded by shortages of coal, power, raw materials and skilled labor and by lack of Soviet cooperation.

In the western zones, there are active signs of industrial revival. One of the large automotive plants in the U.S. Zone returned to the production of trucks in July 1946, and produced 484 units in the remaining six months of that year. This production level has been maintained in 1947 despite shortages of vital parts produced in Soviet-held factories.

The ball bearing industries at Steyr, in the U.S. Zone, which were greatly expanded during the Nazi occupation, are of great importance to the country. Except for Germany, where manufacture is permitted on a temporary basis, no ball bearings are manufactured in neighboring countries. Production in Austria was resumed in May 1946 and by the end of the year total production reached 355,000 units. Output in the first six months of 1947 has steadily increased and the future outlook is encouraging.

The remaining engineering industries -- locomotive, machine tool, agricultural machinery and electric equipment -- are making slight progress in their rehabilitation. Most of these industries are concentrated in the Soviet controlled

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area of Vienna and have suffered from the effects of removals of equipment by the Soviets. Many of the industries are operating at approximately 25% of pre-war production, but Austrian economy often does not benefit fully from such production since the Soviet authorities control many of the plants and divert their production as reparations.

Textiles. Austria has a well developed textile industry but, with the exception of small quantities of wool, flax and hemp, all raw materials have to be imported. In prewar years, foreign exchange obtained from exports of high-grade finished and semi-finished textile goods was sufficient to pay for most of the imported raw materials.

After 1937, cotton substitutes, with wood and chemicals as a basis, were manufactured in a newly constructed plant in Upper Austria, thereby substituting indigenous products for some of the raw materials that formerly had to be imported. However, production at this plant still is spotty because of the coal and power shortage and dependence on certain chemicals, especially sulphuric acid, produced in the Soviet-held plants in Lower Austria.

In 1946 the Austrian textile industry had attained a level of 25 to 35% of its single-shift capacity. Much of the work was on the basis of "finishing" contracts, under which the industry was supplied with raw material and retained a certain percentage of it in payment for the processing.

Austria's textile industry has suffered relatively small damage during the war. The major obstacle to speedy rehabilitation are sufficient credits to purchase raw material abroad.

Leather. The leather industry, likewise, has always been dependent on imports of raw materials, hides and tanning material. Its exports were of the

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luxury goods type. At the present time the industry is operating at no more than 20% of capacity.

Chemical Industries. Prior to 1938, Austrian chemical industries were of minor importance. During the Nazi period a vast expansion took place, particularly in the manufacture of semi-finished materials for final processing in Germany. Many of these newly built plants were stripped by the Soviets for reparations, but those located in the Western Zones remained intact. The production facilities for one of the most vital heavy chemicals, sulphuric acid, are entirely under Soviet control and 1946 production figures are unavailable.

Production of hydro-chloric acid, caustic soda and soda ash, which are produced only in the U.S. Zone, increased considerably during 1946 and in the second quarter of 1947.

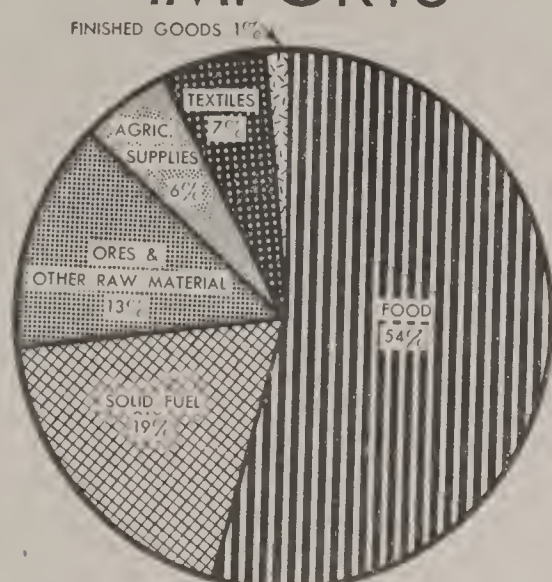
The production curve of industrial gases is of particular interest because it reflects the close relationship between recent industrial development and the coal supply. Production shows a slow but steady rise from January 1946 until November 1946, followed by a sudden drop and decline until March 1947, reflecting the serious state of industry during the winter power and coal crisis. During the second quarter of 1947, production again shows a sharp increase.

Significant changes have taken place in the production of fertilizer. Before the war Austria produced nitrogenous and phosphoric fertilizers, with potassium fertilizer the only one of the three basic fertilizer groups which had to be entirely imported. Now the huge nitrogen plant at Linz not only can provide all of Austria's requirements for nitrogenous fertilizer but is able to produce great quantities of this much-needed product for export. Production of phosphatic fertilizers, concentrated in the Soviet Zone, however, has ceased because of destruction or removal of plant equipment.

CHANGING VOLUME AND COMPOSITION OF IMPORTS AND EXPORTS

PREWAR AND PRESENT

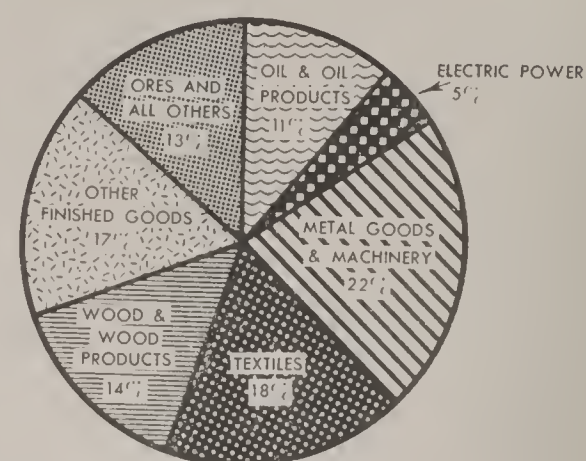
IMPORTS



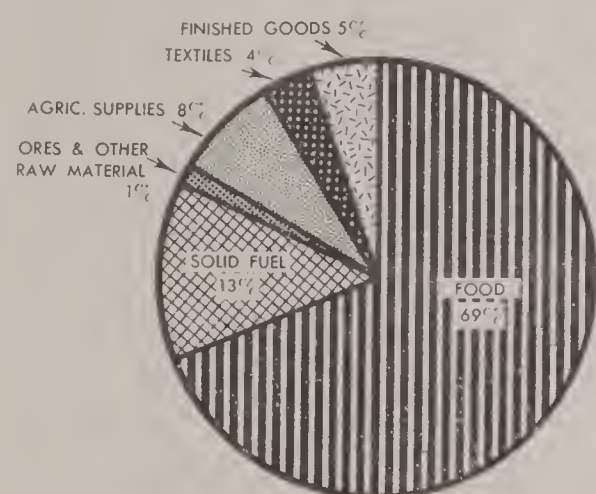
TOTAL IMPORTS 790 MILLION SCHILLINGS

1947

EXPORTS

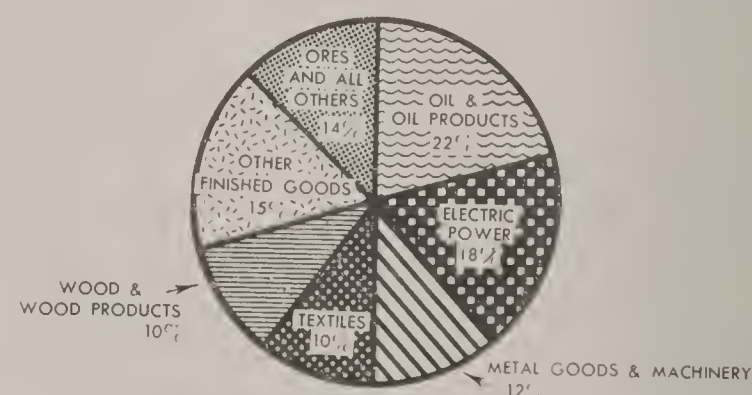


TOTAL EXPORTS 470 MILLION SCHILLINGS

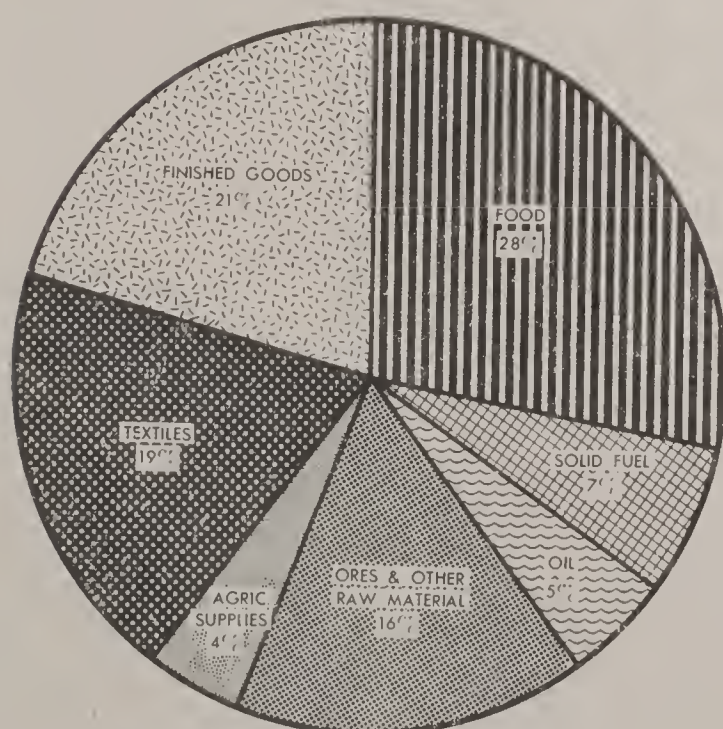


TOTAL IMPORTS 563 MILLION SCHILLINGS

1946

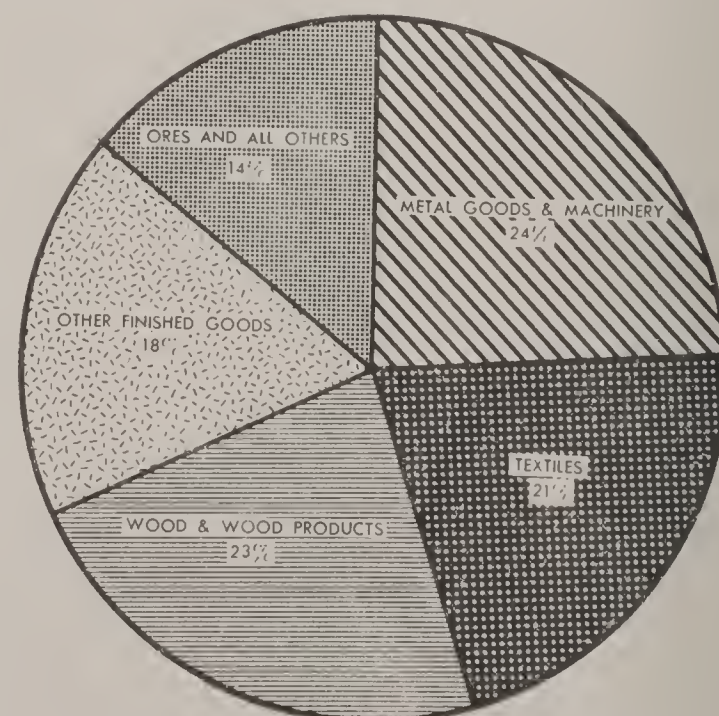


TOTAL EXPORTS 320 MILLION SCHILLINGS



TOTAL IMPORTS 1454 MILLION SCHILLINGS

1937



TOTAL EXPORTS 1217 MILLION SCHILLINGS

Percentage-wise food and solid fuel are the most important components of the sharply decreased postwar imports, though in absolute figures they are substantially similar to prewar import volume of these items. Imports of badly needed finished goods for the present time are limited by lack of exports to pay for them.

On the export side the recent development of Austria's water power and of her oil fields have created two new potential export items.

Wood and wood products used to be one of prewar Austria's principal exports, but over-exploitation during the years of German occupation, will restrict cutting of timber during the next few years. In 1947 the percentage distribution in all groups is similar to prewar, but total exports are only at about one-third their prewar level.

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Optical glass and a type of glass used for artificial jewelry are produced in the French Zone. Production was resumed late in 1945 and has been maintained at a fairly high level. Artificial jewelry glass is exported in quantity to the U.S. and therefore has particular significance in providing dollar credits badly needed for the rehabilitation of Austria's economy.

Foreign Trade and Balance of Payments

The disintegration of the Austro-Hungarian Empire after World War I left Austria a relatively small country, with an economy geared to the requirements of the old Empire rather than to those of the truncated new Austrian State.

Foreign trade was badly unbalanced. During the years of transition foreign loans played an important role in Austria's economy, but gradually the country succeeded in achieving a workable economy. In 1937 the foreign merchandise trade deficit was entirely covered by invisible exports, such as tourist trade, revenues from freight and handling charges on goods in transit, insurance, etc., which amounted to approximately 25% of total merchandise exports.

Austria must export if she is to survive and maintain her standards of living. Industries catering to the export market are of vital importance to provide for imports of the country's basic fuels and raw materials.

From primitive barter deals in 1945, generally carried out on a zonal basis, the rehabilitation of Austria's export-import trade progressed to the more orderly form of trade agreements. The end of 1946 saw official trade relations established with Czechoslovakia, Italy, Poland, Switzerland, Great Britain, France, the Belgium-Luxembourg Economic Union, Holland and Hungary. The present trend is characterized by a definite shift of Austria's trade from her prewar eastern trade to the west. New markets have to be found for many Austrian exports which were sold formerly to Eastern European countries.

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An itemized quantitative comparison between Austria's foreign trade in 1937 and present trade is impossible because of inaccurate official records during the immediate postwar period and inability of the Austrian government to maintain any degree of control over exports of raw materials and finished or processed materials by the Soviet authorities.

Although certain monetary figures have been compiled by the Military Government authorities in Vienna, they are not fully indicative of actual conditions and therefore are not published here.

Both exports and imports included only commercial trade transactions. Relief imports by UNRRA, by the occupying powers and by charitable organizations, as well as such coal imports through OMGUS, for which no definite arrangements for payment were concluded, are not shown under imports. Exports do not include shipments out of the country from Soviet controlled industries, the value of which is at best an Austrian estimate, with no assurance as to the amount which eventually may be credited to Austria.

It can be said, however, that in terms of 1937 schillings imports in 1947 are only about one-half and exports not much more than one-third of corresponding 1937 figures. The foreign trade deficit is very large and invisible exports which traditionally are an important factor in Austria's balance of payment, are only a small fraction of prewar. Assistance to Austria under ERP should be in the direction of rehabilitation of her economy rather than mere relief. A revitalized industry will eventually enable Austria to increase production to the point where sufficient export surpluses will be available to provide for her vital imports.

Tourist trade is a major invisible export item and has always accounted

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for a major portion of Austria's national income. Tourist trade facilities have suffered both from the war and the occupation that followed. Many hotels were bomb-damaged or destroyed; others were requisitioned by the occupying forces; the equipment has suffered by many years of wear and tear and cannot be replaced. Nevertheless, in 1947 with the assistance of the Western Allies, tourist trade was inaugurated on a modest scale. By 1 July, Austrian authorities had reserved 26 hotels in the three western zones for use by tourists against payment in hard currencies. Only minor results are anticipated this year, but the first step in the revival of the important tourist trade has been taken.

Finance

Rehabilitation of the Austrian economy depends to a great extent on the stability of the country's currency. One of the first steps taken by the Allies and the Austrian government after the end of World War II was to extricate Austria's currency from its complete submergence in the German monetary system, and to reestablish the faith of the people in the restored Austrian schilling currency.

At first, control over financial institutions in the U.S. Zone was exercised through the established branches of the former Reichsbank, but the U.S. authorities immediately took active steps towards the establishment of complete control by the reconstituted Austrian National Bank.

The United States Element gave every aid to private insurance companies in recovering missing records which had been removed to Germany. With the assistance of other Allied Powers a balance was established between the payment of claims and the rebuilding of minimum premium reserves. An important problem for Austria's financial institutions is the final disposition of holdings

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of Reich Government obligations and of genuine Austrian assets under the existing interpretations of the Potsdam Agreement with respect to German External Assets.

Currency and Price Control. Most important was the currency problem.

The United States Element took active steps to reestablish an independent Austrian currency. Conversion of Reichsmark to Austrian schillings took place in December 1945, when Reichsmarks were exchanged into schillings on a one for one basis. At the same time, however, bank deposits were frozen and limited withdrawals were permitted only on a month to month basis in order to achieve a drastic cut in the amount of money in circulation.

This measure was necessary to remove the grave threat to the stability of the Austrian currency, resulting from the large increase in currency and bank deposits which had taken place during the Anschluss period, and from additional inflationary pressure by the financing of the large occupation costs.

As a result of these measures, black market schilling quotations for the dollar dropped more than 90% between December 1945 and August 1946, and monetary circulation was reduced by about 50%.

However, the effects of large Soviet demands for occupation costs again gradually raised the circulation. This new rise in currency circulation necessarily exerted pressure on the legal wage-price structure of the country. Until April 1946 prices in general were held at the level established by the Nazis, although an upward movement was recognized as inevitable. The rise in production costs, because of the disruption of normal supply channels and other postwar conditions, called for higher prices. The acceptance of the exchange rate of 10 schillings for one U.S. dollar was in effect a mild inflationary

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move, and the attempt by some manufacturers to charge off repair costs for war damages and reconstruction to the consumer also tended to increase the danger of inflation.

Since early 1946 upward movement of legal prices has been kept under control, but in view of the great scarcity of goods, currency circulation still remained too large to prevent very high prices on extra legal markets. Legislation enacted by the Austrian Parliament in November 1947 provided for replacement of the 1945 schilling by a new currency designed to have a higher value in terms of commodities. It is expected that this second currency reform will further advance the work begun with the Conversion Bill of December 1945.

Reduction of Occupation Costs. Reduction of occupation costs from a level entirely out of proportion with Austria's normal budget was imperative to safeguard the favorable results achieved by the currency control measures instituted in 1945.

Occupation expenditures early in 1946 were 200% of the Austrian civilian budget with the major portion payable to the Soviet authorities. A quadripartite agreement reached in May 1946 provided for drastic reductions. Accordingly, allocations for occupation expenditures for the period 1 April to 30 June 1946 were reduced to 35% of the civilian budget and in the third and fourth quarters of 1946 they were further lowered to 30% and 25% respectively.

In 1947 total allocations for occupation costs were reduced to 15% of the civilian budget for the first and second quarters and to 13.7% for the third quarter.

The United States Element went still further in accordance with its policy to aid economic rehabilitation of Austria. In June 1947 the U.S.

~~SECRET~~

renounced any further demands on the Austrian Government for occupation costs and agreed to provide U.S. dollars to purchase the necessary schilling occupation funds or to reimburse the Austrian Ministry of Finance in dollars for schilling expenditures made by the Ministry on its behalf. As a result of this action, occupation expenditures by the Austrian Government for the July-September period 1947 dropped to slightly over 10% of the Austrian civilian budget. In addition, the Austrian Government obtained much needed free dollar exchange.

At the same time it was agreed to turn over to the Austrian Government a total of 308 million schillings held by the U.S. Forces in Austria. In return, the Austrian Government assumed responsibility for all claims outstanding against the U.S. Forces in Austria as of 30 June 1947.

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